ICELANDAIR GROUP

Prospectus

7 May 2019

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Summary

7 May 2019

The Summary is made up of five sections marked A-E. The order of the sections is mandatory, and each section consists of elements numbered from A.1-E.7.

The Summary is compiled in accordance with Annex XXII to EC Commission Regulation EC/809/2004 that implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 ("The Prospectus Directive") and amendments thereto, including the 2010 PD Amending Directive regarding information contained in prospectuses. The level of disclosure in the Summary follows the requirements set out in Annexes I and III of the aforementioned Directive. The order of the elements in the tables may be non-sequential in cases where certain elements are not required according to Annexes I and III.

Even if the Summary should contain a certain element it is still possible that the element does not apply in the case of this particular Issuer or the securities being issued and/or admitted to trading. In such a case a short description of the element is still included along with a comment stating, "not applicable".

A. Introduction and warnings

Element	Description	Disclosure
A.1	Warning	This Summary should be read as an introduction to Icelandair Group hf.'s ("Icelandair Group", "the Company" or "the Issuer") Prospectus dated 7 May 2019 ("the Prospectus"). Any decision to invest in the securities should be based on consideration of the Prospectus as a whole. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under national legislation of the Member States, have to bear the cost of translating the Prospectus before the legal proceedings are initiated; and Civil liability attaches only to those persons who have tabled the Summary including any translation thereof, but only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	Agreed use of the Prospectus	The Prospectus was compiled in relation to the admittance of new Shares ("the New Shares") in Icelandair Group to trading on the regulated market of Nasdaq Iceland. The Prospectus may not be used for any other purpose than that described above.

B. Issuer

Element	Description	Disclosure
B.1	Legal and commercial name of the Issuer	The Issuer's name is Icelandair Group hf. The Issuer's commercial name is Icelandair Group or simply Icelandair.
B.2	Domicile and legal form of the Issuer	The Issuer's domicile is at Reykjavíkurflugvöllur, 101 Reykjavík, Iceland. Icelandair Group is a public limited liability company, incorporated according to Act No. 2/1995 respecting Public Limited Companies.
B.3	Operations	Icelandair Group is an Icelandic airline company whose main purpose is the operation of an international Route Network through a hub-and-spoke model based in its home market, Iceland. The airline aspect of the Company's operations includes both scheduled and charter services for passengers and freight. Icelandair Group is the parent company of ten main subsidiaries, hereinafter collectively referred to as "the Group". The cornerstone of the Issuer's operations is Icelandair ehf. ("Icelandair" or "the Airline") which in 2018 accounted for 73% of the Group's revenues. In addition, among others, Icelandair Group is the parent company of Loftleiðir Icelandic ehf., Air Iceland Connect ehf., Vita ehf., Fjárvakur ehf., Icelandair Hotels (Flugleiðahótel ehf.) and Iceland Travel ehf. The Company has decided to divest its non-aviation businesses (subsidiaries) resulting in two of the ten currently being either in the process of being sold (Icelandair Hotels) or categorised as held for sale (Iceland Travel). Icelandair Group's vision is to unlock Iceland's potential as a year-round destination, to strengthen Iceland's position as a connecting hub and to maintain their focus on flexibility and experience.

B.4a	A description of the most significant recent trends affecting the Issuer and the industries in which it operates	A fatal crash of a Boeing 737 MAX 8 aircraft operated by Ethiopian Airlines in March 2019, taking into consideration the crash's similarities with a crash involving another Boeing 737 MAX 8 operated by Lion Air in Indonesia in November 2018, led to the EU along with several countries banning the model, as well as the MAX 9 model of the same aircraft, from flying in their airspace. The ban ultimately led to a grounding of all aircraft of these models by regulators in the EU, USA, Canada and parts of Asia and subsequently by the Boeing Company itself. At the date of the Prospectus, six of Icelandair's fleet of 36 aircraft are Boeing 737 MAX ("the B737 MAX"). The Airline is further scheduled to take delivery of three more B737 MAX aircraft in 2019. These remaining aircraft were originally scheduled for delivery this spring however, the Company has, in relation to the grounding, requested that delivery be postponed. The Airline is currently working on the assumption that the B737 MAX will be operational on or before 16 July 2019 and has adjusted its 2019 flight schedule accordingly. This includes entering into leasing agreements regarding two 262-seat Boeing 767 aircraft and one 184-seat 757-200 aircraft. The B737 MAX seating capacity on the other hand ranges from 160 to 178. These larger aircraft will therefore act to curb the impact of the suspension on the Company's total seating capacity during the period which is expected to decrease by less than 1% as a result. All three of the leased aircraft will service the Airline until the end of September 2019. Should the suspension of the B737 MAX extend beyond 16 July 2019, the Airline will, all other things constant, not have enough aircraft at its disposal to operate the Route Network's flight schedule as currently planned for, after that date. In such a scenario the Airline may choose either to adjust the flight schedule further or seek to lease additional aircraft to continue to minimise the B737 MAX suspension. The full operational and financial impact of the suspension of the B737 MAX aircraft continues to be uncertain at this time and will not be fully known until the grounding is lifted. The Company estimates the negative impact over the first quarter 2019 to have been USD 3 million. On 28 March 2019, Icelandair's main local competitor WOW air ("WOW") declared bankruptcy and

		immediately suspended all operations. Despite the exit of WOW, competition in the Airline's markets remains fierce with 24 passenger airlines making scheduled flights to and from Iceland in the 2019 summer season and 15 airlines currently planning on making scheduled flights during the 2019/2020 winter season. Competition for the route across the Atlantic is also fierce and mostly unaffected by the exit of WOW. The overall effect on the total number of passengers travelling to and via Iceland and further effects have yet to be fully realised. 2019 starts with challenging conditions in the VIA market whereby Icelandair saw a decline in passenger numbers and the greatest lowering of airfares out of their three operating markets. As a response Icelandair has reduced capacity in the transatlantic market and in turn increased it in the TO and FROM markets where airfares have not suffered as much. On 10 April, with an update issued on 3 May, Icelandair announced some changes to its flight schedule, in part to accommodate the exit of WOW. However, due to the current grounding of the B737 MAX, Icelandair is restrained in its ability to expand or otherwise change its schedule. Once the B737 MAX is operational again, the Airline may choose to reorganise its flight schedule further, to the extent it feels is economical and profitable.
B.5	Description of the Group	Icelandair Group is the parent company to Icelandair ehf., Loftleiðir Icelandic ehf., Air Iceland Connect ehf., Vita ehf., Fjárvakur ehf., E320 ehf., IceCap Ltd. Guernsey, Iceeignir ehf., Icelandair Hotels (Flugleiðahótel ehf.) that are in sales process, and Iceland Travel ehf., being held for sale. All group companies are based in Iceland.
B.6	Largest shareholders	The 20 largest shareholders are shown as at close of business on 6 May 2019 on the one hand (pre-increase) and as expected on 8 May 2019 (post-increase) on the other, absent of other changes. To the best of the Issuer's knowledge, the below listed are the rightful owners of the Company at the respective dates. The Issuer is not aware that it is, whether directly or indirectly, under the control or influence of a party or parties other than those listed below.

20 largest shareholders

Owner	Before increase		After increase	
	No. of shares	%	No. of shares	%
Lífeyrissjóður verslunarmanna	694,361,239	14.4	694,361,239	12.8
Par Investment Partners L.P.	-	-	625,000,000	11.5
Gildi - lífeyrissjóður	393,761,301	8.2	393,761,301	7.2
Birta lífeyrissjóður	368,988,795	7.7	368,988,795	6.8
Lífeyrissj.starfsm. rík. A-deild	344,840,000	7.2	344,840,000	6.3
Stefnir - ÍS 15	297,774,113	6.2	297,774,113	5.5
Stefnir - ÍS 5	284,163,903	5.9	284,163,903	5.2
Stapi lífeyrissjóður	153,105,201	3.2	153,105,201	2.8
Frjálsi lífeyrissjóðurinn	152,555,294	3.2	152,555,294	2.8
Landsbréf – Úrvalsbréf	120,848,096	2.5	120,848,096	2.2
Lífeyrissj.starfsm.rík. B-deild	114,682,600	2.4	114,682,600	2.1
Kvika Banki – Safnreikningur	97,647,382	2.0	97,647,382	1.8
Brú Lífeyrissjóður starfsm. sveitaf.	96,136,406	2.0	96,136,406	1.8
Almenni lífeyrissjóðurinn	83,378,324	1.7	83,378,324	1.5
Sólvöllur ehf.	60,073,240	1.2	60,073,240	1.1
Festa - lífeyrissjóður	56,606,538	1.2	56,606,538	1.0
Vænting ehf.	50,000,000	1.0	50,000,000	0.9
Stefnir - Samval	48,928,365	1.0	48,928,365	0.9
Söfnunarsjóður lífeyrisréttinda	48,158,780	1.0	48,158,780	0.9
Júpíter - Innlend hlutabréf	47,145,041	1.0	47,145,041	0.9
Lífeyrissjóður starfsm. RVK	43,078,781	0.9	-	-
20 largest shareholders	3,556,233,399	73.9	4,138,154,618	76.1
Other shareholders (3,163 / 3,164)	**1,256,427,254**	**26.1**	**1,299,506,035**	**23.9**
Total	**4,812,660,653**	**100.0**	**5,437,660,653**	**100.0**

B.7	Key historical financial information	The consolidated financial statements set forth in the Prospectus are for the years ended 31 December 2016, 2017 and 2018, respectively as well as the three-month periods ended 31 March 2018 and 2019 respectively. Since the end of the last period, for which audited financial statements have been published, certain events have taken place or are set to take place. These changes, to a smaller or larger extent, will have bearing on the Company's financial reporting going forward. Investors are advised to consider this when making comparison between individual fiscal years and quarterly accounts as well as between the Company's 2018 and future consolidated financial statements. Most significantly the following: / The Company has abandoned the business segment split used for reporting in the 2018 and

		2017 consolidated financial statements; International Flight Operations, Aviation Investments and Tourism Investments. The new business segment split as of 1 January 2019 is Passenger Network and Aviation Service along with Tourism, the last one of which will be retired once the divestment of Icelandair Hotels and Iceland Travel is completed. / The Company has decided to divest its Tourism subsidiaries; Icelandair Hotels and Iceland Travel. At the date of the Prospectus, the Company is in final negotiations with a potential buyer of the hotel operations which are expected to be concluded in the first half of 2019. The Company expects to retain a 20% share in Icelandair Hotels following the sale. The holdings will be classified as an associated company. The sale of Iceland Travel is in preparation with a conclusion of the sale being expected before year-end 2019. The Company expects to fully divest itself of Iceland Travel's operations. / The Company has, at the date of the Prospectus, redeemed all outstanding bonds of its ICEAIR 15 1 bond class and one-third of the USD 190 million bond class bearing ISIN NO0010776982 along with accrued interest. Total payments made in connection with these redemptions amounted to USD 89.3 million whereof 1.5 million was accrued interest. The source of funds was cash at hand. The Company further holds the right to redeem all or some of the remaining outstanding nominal amount of the NO0010776982 bond class. The Company will issue a formal statement if and when any further redemption payment is made. / On 1 April 2019 the Company announced it had entered into a leasing agreement regarding two Boeing 767-300 aircraft. The first aircraft came into operation mid-April and the second one at the beginning of May. Both aircraft have 262-seats and will be in operation until the end of September 2019. On 10 April Icelandair announced it had secured a lease of a third aircraft, a Boeing 757-200 model with 184 seats that will enter the fleet

in mid-May and be at the Company's disposal until end of September. These aircraft are meant to curb the impact of the grounding of the B737 MAX aircraft. The Company has estimated the cost of the grounding to be USD 3 million in the first quarter of 2019. Icelandair reserves the right to seek compensation from the Boeing Company for the cost associated with these leases.

- On 3 April 2019, the Company announced that it had entered into a binding agreement with PAR Capital Management, a Boston-based investment management company, for the latter to acquire 625,000,000 new Shares in Icelandair Group at a price of ISK 9.03 per share. The total purchase price amounts to ISK 5,643,750,000 payable to the Company. The total number of issued shares in the Company following the increase will be 5,437,660,653.

Consolidated statements of profit or loss

USD '000	**2019** 01.01.-31.03. *Unaudited*	**2018** 01.01.-31.03. *Unaudited*	**2018** 01.01.-31.12. *Audited*	**2017 Restated**[1] 01.01.-31.12. *Audited*	**2016** 01.01.-31.12. *Audited*
Operating income	248,602	267,619	1,510,518	1,417,987	1,285,574
Operating expenses	263,270	(285,830)	(1,434,039)	(1,247,911)	(1,065,729)
EBITDA	**(14,668)**	**(18,211)**	**76,479**	**170,076**	**219,845**
Depreciation and amortisation	(44,911)	(28,002)	(133,447)	(120,431)	(101,408)
Operating (loss) profit (EBIT)	**(59,579)**	**(46,213)**	**(56,968)**	**49,645**	**118,437**
Finance income	432	5,601	8,578	14,083	6,414
Finance costs	(9,726)	(4,193)	(21,172)	(15,678)	(5,697)
Net finance (costs) income	**(9,294)**	**1,408**	**(12,594)**	**(1,595)**	**717**
Share of profit of associates, net of tax	405	1,266	1,752	592	957
(Loss) profit before tax	**(68,468)**	**(43,539)**	**(67,810)**	**48,642**	**120,111**
Income tax	13,355	9,011	12,240	(11,104)	(31,043)
(Loss) profit for the period	**(55,113)**	**(34,528)**	**(55,570)**	**37,538**	**89,068**
(Loss) earnings in US cent per share	*(1.15)*	*(0.72)*	*(1.16)*	*0.75*	*1.79*

[1] With the implementation of the new IFRS 15 revenue recognition standard, baggage fees, in-flight sales, excess leg room and wi-fi that are sold as a separate component are now included in passenger revenue. These items were previously included in either cargo, mail or sale at airports and hotels. Amounts from 2017 have been restated accordingly. Amounts from 2016 have not been restated in this respect.

Consolidated statements of financial position

USD '000	2019 31.03. Unaudited	2018 31.03. Unaudited	2018 31.12. Audited	2017 Restated 31.12. Audited	2016 31.12. Audited
Assets					
Total non-current assets	1,068,728	1,035,805	894,578	959,786	874,977
Total current assets	813,527	551,357	569,544	464,056	417,516
Total assets	**1,882,255**	**1,587,162**	**1,464,122**	**1,423,842**	**1,292,493**
Equity					
Total equity	**425,805**	**554,861**	**471,379**	**596,545**	**568,213**
Liabilities					
Total non-current liabilities	402,451	350,392	194,935	358,378	268,190
Total current liabilities	1,053,999	681,909	797,808	468,919	456,090
Total liabilities	**1,456,450**	**1,032,301**	**992,743**	**827,297**	**724,280**
Total equity and liabilities	**1,882,255**	**1,587,162**	**1,464,122**	**1,423,842**	**1,292,493**

Consolidated statements of cash flows

USD '000	2019 01.01.-31.03. Unaudited	2018 01.01.-31.03. Unaudited	2018 01.01.-31.12. Audited	2017 Restated 01.01.-31.12. Audited	2016 01.01.-31.12. Audited
Net cash from operating activities	72,941	67,115	61,553	205,603	209,024
Net cash used in investing activities	(53,592)	(129,159)	(129,933)	(228,419)	(291,759)
Net cash from financing activities	(28,728)	30,802	149,336	14,554	113,643
Increase (decrease) in cash and cash equivalents	**(9,379)**	**(31,242)**	**80,956**	**(8,262)**	**30,908**
Effect of exchange rate fluctuations on cash held	**(1,061)**	**1,308**	**(2,687)**	**2,564**	**1,395**
Cash and cash equivalents at beginning of the period	299,460	221,191	221,191	226,889	194,586
Cash and cash equivalents at end of the period	289,020	191,257	299,460	221,191	226,889

B.8	Pro forma financial information	Not applicable
B.9	Profit forecast and estimates	As of the date of the Prospectus, the Company has not issued an EBITDA guidance for 2019 because of greater uncertainty in revenue forecasts than before and uncertainty in the labour market in Iceland. Icelandair Group's long-term business objective remains unchanged, with an average 7% EBIT ratio. The Airline is by far the most important factor to the Group's results of operations and is therefore the main subject of the risks and uncertainties listed in the Prospectus. Risk factors that specifically only apply to

		subsidiaries Loftleiðir Icelandic and Air Iceland Connect are considered immaterial. The same applies to risk factors applicable to subsidiaries currently either in or planned for divestment, Icelandair Hotels and Iceland Travel.
B.10	Qualifications in audit reports	The Company's statutory auditors have signed all audited historical financial statements contained in the Prospectus without qualification. The condensed consolidated interim accounts are neither audited nor reviewed.
B.11	Working capital	The Chairman of the Board and the President and Chief Executive Officer of Icelandair Group, for and on behalf of the Issuer, declare that at the date of the Prospectus, Icelandair Group has sufficient working capital to fulfil its requirements for the next 12 months thereafter.

C. The Securities

Element	Description	Disclosure
C.1	A description of the type and the class of the securities being issued and/or admitted to trading, including any security identification number	The securities are New Shares in Icelandair Group. The Company's Board of Directors has applied for all New Shares in the Company to be admitted to trading on Nasdaq Iceland's regulated market. The Company's Shares are all in one class and equal in all respects according to the Company's Articles of Association. Icelandair Group's Shares are issued in accordance with Act No. 2/1995 respecting Public Limited Companies. The Shares are electronically registered at the Nasdaq CSD Iceland in accordance with Act No. 131/1997 on the Electronic Registration of Titles to Securities under the ticker ICEAIR and ISIN IS0000013464.
C.2	Currency of the securities issued	ISK

C.3	The number of shares issued and fully paid and issued but not fully paid. The par value per share, or that the shares have not par value	Icelandair Group's issued share capital amounts to ISK 5,437,660,653, divided into an equal number of Shares. The nominal value of each Share is ISK 1. Thereof 4,968,910,653 Shares have been fully paid and the remaining 468,750,000 will be paid against delivery on 7 May 2019. Upon settlement all Shares will be a part of the share capital.
C.4	A description of the rights attached to the securities	All Shares have equal rights and no special rights are attached to any of the Shares. One vote is attached to each Share in the Company at shareholders' meetings. Shareholders' rights at any given time are subject to the Company's Articles of Association and applicable legislation.
C.5	A description of any restrictions on the free transferability of the securities	Shares in the Company may be freely traded, transferred or pledged unless otherwise stipulated by law, including Act. 131/1997 on the Electronic Registration of Titles to Securities.
C.6	An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded	Icelandair Group's Board has applied for all 625,000,000 New Shares to be admitted to trading on Nasdaq Iceland's regulated market.

C.7	A description of dividend policy	The Board of Directors of Icelandair Group has adopted a dividend policy whose objective is to pay 20-40% of each year's annual net profit as dividend to its shareholders. The final decision on any dividend proposal will be based on the financial position of the Company, operating capital requirements and market conditions. Dividend payments may at times also be impacted by the Company's liquidity needs, financial covenants and other possible factors that might limit dividend payments to shareholders at any given time. These considerations might affect the proposed amount of dividend and even lead to no dividend payment. All shareholders hold equal rights to dividend payments. Dividend shall be decided at the Annual General Meeting to be held before the end of April each year. A dividend was paid for fiscal years 2015, 2016 and 2017. No dividend was paid for the 2018 fiscal year.

D. Risk factors

Element	Description	Disclosure
D.1	Key risks that are specific to the Issuer or its industry	**General macroeconomic risk** General macroeconomic risks such as slowing economic growth, changes in interest rates, fluctuations in exchange rates, employment levels and inflation, whether globally or locally, can adversely affect the Company's operations. **Industry and operational risk** Icelandair Group, as other companies, is subject to general risk of operation. Such risk can be related to various factors in the Company's operation and cause direct or indirect losses. An example of such risk might be environmental and security factors, information technology, management of employees, the Company's reputation, as well as a risk that the Company's strategy or/and plans do not materialise.

		The Company's operating assets are expensive and complicated, and the Company is therefore subject to risk related to break down or/and disruption in their operation. As is the case with any airline operator, the Company is exposed to significant potential loss through either crashes, malfunctions or other accidents. Costs may involve the repair or replacement of damaged or lost aircraft, consequent temporary or permanent loss of services and claims from passengers. Despite having insurance against this type of incident, the Company cannot guarantee that insurance coverage and policy pay-outs would in every case fully cover the resulting losses. Moreover, should an aircraft from the Company, or of the same type as used by the Company be involved in an accident, it might result in a damaged reputation or the Company's aircraft not being seen as reliable, which in turn could decrease demand for the Company's services. Materialisation of any of these risks may have a material adverse effect on the Company's business, financial condition, results of operations and future prospects. Airline operations tend to be affected by high level of fixed costs due to the nature of provided services, i.e. the operation of expensive equipment, obligations due to leasing and investments and clauses in collective wage agreements that place certain restraints on flight crew scheduling. The high proportion of fixed costs makes unit revenues by Available Seat Kilometres ("ASK") important. Fluctuations in revenues per ASK can therefore detrimentally affect the Company's profitability particularly in the event of demand shocks, e.g. due to external disruptions that might be outside the scope of the Company's control. Cost awareness and flexibility, i.e. how quickly an airline can adapt to a changed external environment, are important factors in preserving profitability. The airline and tourism industries are inherently labour-intensive industries. Most of the Company's employees are unionised; and represented by several unions, each of which has its own collective agreement on salaries and benefits with the Group's companies. Strikes can materially affect the Company's operations and financial results; a worst-case scenario being a complete halt in the operations of one or more of its subsidiaries for a prolonged

		period. Strikes in the aviation industry are particularly taxing for airlines due to proportionately high fixed costs. The airline and tourism industries are subject to fees and charges as well as an ever-changing tax environment, which can have a direct effect on ticket pricing and demand. The Company operates an international Route Network based on a hub-and-spoke model. This makes access to the right airports in its defined geographical market, including in its hub Keflavík Airport, vital to maintain and open up new gateways to large and competitive markets. The Company faces intensive competition in all fields of its activities. The level of competition amongst airlines is high, and pricing decisions are heavily dependent on competition from other airlines. In general, the airline industry is susceptible to fare discounting due to low marginal costs of adding passengers to otherwise empty seats. New market entrants, especially low-cost carriers, mergers, acquisitions, consolidations, new partnerships and increased transparency of pricing in the air travel market add to airline competition. Should competition increase even further in any of the Company's key transport markets, including the Icelandic market, it could affect the Company's profitability. The Company's most important subsidiary, Icelandair, operates in an industry where demand has traditionally been much higher in the summer ("High Season") than other seasons. Lower demand for air travel, flight cancellations or other factors affecting aircraft utilisation would therefore have a proportionately greater impact on the Company during the High Season than during other periods. Any change in law, regulation, rules or government rulings can adversely affect the operation, profit or/and value of Icelandair Group's Shares. An example of such might be further restrictions on environmental protection such as targets for carbon dioxide emissions and denial of renewal of Icelandic Air Operator Certificates ("AOCs").

		Financial risk Icelandair Group is subject to multiple financial risks, including the price of jet fuel, currency risk, interest rate and funding risk, liquidity risk, counterparty risk, inflation risk, insurance risk and tax risk. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company is contractually bound to honour various covenants in loan and leasing agreements as well as under the terms and conditions of issued bonds. Should the Company become unable to fulfil the relevant covenants, or for some reason discontinue to do so, the lessors or lenders may become entitled to rescind or accelerate these agreements, which might have financial consequences for the Company. Icelandair Group operates within a sector which has specific risk related to global market price and demand for jet fuel. Airline operators are highly sensitive to jet fuel prices and availability. Extreme price movements and/or restricted availability of jet fuel may affect the profitability of the Company. Due to fierce competition, airlines can find it more difficult passing price increases on to their customers through fuel surcharges and other methods. The Company's functional currency is U.S. dollars. The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in other currencies. **Legal risk** Air transportation is subject to intensive regulation. AOCs for Icelandic carriers are granted by the Icelandic Transport Authority (“ITA”) and have been issued to the relevant subsidiaries of the Company, authorising them to conduct their airline operations. Among general requirements to obtain an AOC are sufficiently experienced personnel; having aircraft suitable for the type of operations requested; a quality assurance system to ensure that all regulations are followed and proof that the operator has sufficient funds to run the operation. There is no guarantee that

		the Company will be issued such certificates in the future. Icelandair Group's operation is subject to several sectorial laws on e.g. pollution prevention, safety and hygiene. Government regulations on environmental protection such as targets for carbon dioxide emissions are a growing issue for the airline industry. Moreover, the industry is subject to various local restrictions around airports such as to reduce noise and pollution. This can concern opening hours of airports, availability of slots and the usage of airspace. Congestion and environmental restrictions can for example lead to delays or increase the complexity of departure and approach manoeuvres which may act to reduce productivity and increase costs. As of January 2012, all airline carriers flying into and out of the EU had to ensure compliance with the legal requirements set forth in Directive 2003/87/EC relating to greenhouse gas emissions. The Directive brought the airline industry into the Emission Trading Scheme ("EU ETS") whereby airlines must purchase emission units reflecting the physical carbon dioxide emission created by their consumption of jet fuel. The Directive, which only applies to routes within the EU, places competitive disadvantages on airlines with a heavy European focus compared to non-European air carriers who operate a lower proportion of their flights within the EU. This is particularly the case for a company serving North-Atlantic routes with a hub-and-spoke model competing with direct flights as they are exempt from this environmental tax. At the time of the publishing of the Prospectus, the Company is involved in a few legal disputes, none of which is of financial significance. The Icelandic Competition Authority (ICA) is investigating Icelandair's alleged predatory pricing in 2012–13 which could be considered as a breach of Article 11 of the Icelandic Competition Act. The Company's management is of the opinion that Icelandair's pricing in 2012–13 was fully compliant with the Competition Act.

D.3	Key risks associated with the securities	**Risk inherent to equity shares investments** Equities are generally speaking, considered a riskier investment than some other financial instruments e.g. bonds. Share prices can fluctuate more than bond prices and their value can drop to zero. In the event of the Company's liquidation, shareholders are last in line of receivership. **Ownership and control** Investors must take into account that the structure and composition of a company's shareholder base can be a risk factor. Investors should be aware that ownership of the Company can change quickly and without notice. **Market risk** No assurance can be given with respect to the market price of Icelandair Group's Shares once listed. Volatility thereto could among other be related to general supply and demand for shares in general. **Liquidity risk** The liquidity of the Shares is subject to fluctuations in response to factors such as actual or anticipated variations in the Company's operating results, changes in estimates or recommendations by financial analysts, currency exchange rates, regulatory developments, general market conditions and other factors. Liquidity risk is to some extent mitigated by market making agreements such as the ones the Company plans to enter into regarding the Shares. Despite such an effort there can be no guarantee issued that shareholders in Icelandair Group will be able to dispose of their holdings at the price, or in the volume, desired in the secondary market. **Dilution** According to the Articles of Association, shareholders shall have pre-emptive rights to purchase new Shares issued by the Company in proportion to their registered holdings. In the event of a share capital increase, existing investors would need to subscribe for new Shares in proportion to their existing holdings so as to not be diluted.

E. The Offer

Element	Description	Disclosure
E.1	The total net proceeds and an estimate of the total expenses relating to the Offer	The total proceeds of sale of the 625,000,000 New Shares are ISK 5,643,750,000 based on a share price of ISK 9.03 per share. The Shares were sold via private placement. The total costs associated with the issuance of the Shares and their admittance to trading is estimated to be ISK 100 million, all borne by the Company.
E.2a	Reasons for the Offer, use of proceeds and estimated net amount of the proceeds	The objective of the share capital increase is to further solidify the Company's financial position which will enable it to develop its fleet with the aim of supporting the long-term profitable growth of the Route Network and making it capable of seizing opportunities that may present themselves in the current operational climate. The estimated net amount of the proceeds is ISK 5,543,750,000.
E.3	A description of the terms and conditions of the Offer	**Conditions** The only pre-condition according to the agreement between the parties was that existing shareholders waive their pre-emptive rights to the New Shares which they did at a shareholders' meeting on 24 April 2019. Pursuant to the agreement with the buyer, the Company shall issue the New Shares within 14 days of all pre-conditions being lifted otherwise the buyer shall have no obligation to purchase the Shares.
E.4	Potential conflict of interest	Investors are advised of the following interests Íslandsbanki has regarding Icelandair Group: / The Corporate Finance division of Íslandsbanki was hired by the Company to oversee the process of issuing and getting the New Shares admitted to trading on the regulated market of the Nasdaq Iceland. Íslandsbanki Corporate Finance accepts a fee for their services to the Company.

		/ Íslandsbanki's FX Sales division provides foreign exchange trading services to Icelandair Group. / Íslandsbanki's Corporate Banking division is a lender to Icelandair Group and provides the Company with general banking services. / Íslandsbanki holds 22,449,752 Shares in Icelandair Group. / Íslandssjóðir hf., a fully-owned subsidiary of Íslandsbanki, holds 34,205,192 Shares in Icelandair Group. Íslandsbanki is not under any obligation to evaluate whether the purchase of Shares in the Company is appropriate for the buyer. Investors participating in such transactions do not enjoy protection in accordance with Article 16 of the Securities Transactions Act. In accordance with Article 8 of the Securities Transactions Act, Íslandsbanki has in place provisions for the treatment of potential conflicts of interest. Investors are advised to acquaint themselves with these provisions on the bank's website: https://islandsbanki-res.cloudinary.com/image/upload/v1/documents/Utdrattur_ur_stefnu_Islandsbanka_hf_um_hagsmunaarekstra.pdf (Icelandic only).
E.5	Seller and lock-up agreements as applicable	Seller: Icelandair Group hf., ID No. 631205-1780, Reykjavíkurflugvöllur, 101 Reykjavík, Iceland. To the best knowledge of the Issuer no lock-up agreements exist regarding trading of Shares in the Company.
E.6	Dilution	The issuance and sale of the New Shares, in the nominal value of ISK 625,000,000, results in an 11.5% immediate dilution of existing shareholders' pre-increase holdings in the Company.
E.7	Expenses charged to investors	No cost is imposed on the buyer by the Issuer relating to the sale or issuance of the Shares.

Securities Note
7 May 2019

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01 RISK FACTORS

Investments in equities involve inherent risks. The value of shares in Icelandair Group hf., ("the Shares") can increase as well as decrease which could lead to investors losing part or all their investment.

Investors should study all information contained in Icelandair Group's hf. ("the Company" or "the Issuer") Prospectus, dated 7 May 2019, of which this Securities Note forms a part, to adequately assess the risks involved and the suitability of the Shares as an investment option for themselves. Investors are advised to properly evaluate their legal standing and any tax considerations involved with investments in the Shares and seek suitable independent counsel.

Investors are encouraged to acquaint themselves with the risks and uncertainties presented in Chapter 1 *Risk Factors* in this Securities Note and the Company's Share Registration Document, both dated 7 May 2019. The Company considers these risk factors material for the effective assessment of the market risk associated with investments in the Shares. If any of the following risks were to materialise, individually or together with other circumstances, they could have a material and adverse effect on the Company and/or its business, results of operations, cash flows, financial condition and/or prospects, which may cause a decline in the value and trading price of the Shares, resulting in the loss of all or part of an investment in the Shares.

Additional risks and uncertainties that do not currently exist, that are not presently considered material, or of which the Company is unaware, may also impair the business and operations of the Company resulting in a change in the market price of the Shares.

The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude of their potential impact on the Company's business, results of operations, cash flows, financial condition and/or prospects. The risks mentioned herein could materialise individually or cumulatively. Any quantification of the significance of each individual risk factor for the Company would be misguiding, as the risk factors mentioned in the Securities Note may materialize to a greater or lesser degree.

The information in this chapter is presented as of the date of the Securities Note, unless otherwise noted, and is subject to change, completion or amendment without notice.

1.1 Risk inherent to equity share investments

Equities are generally speaking considered a riskier investment than some other financial instruments e.g. bonds. Share prices can fluctuate more than bond prices and their value can drop to zero. In the event of the Company's liquidation, shareholders are last in line of receivership, collecting only that which is left when all other claims have been settled. Return on equity securities is dependent on dividend payments and the change in share price, i.e. the difference between the purchase price and the selling price of each share. Theoretically, the risk involved can be mitigated by investing in a portfolio of diverse investments and limiting the investments to companies that the investor either knows well or can study in detail. Investors can further severely reduce risk by limiting or avoiding the use of borrowings to fund share purchases. Nevertheless, the inherent risks of the equity markets cannot be fully avoided when investing in equity securities.

In some cases, in the past, investing in equities has given better returns in the long run than investing in bonds. However, investors should note that investing in equities can also render lower returns than investing in bonds in the long run and even result in losses. Investors should bear in mind that even though equities can provide a good return in general, there is always a risk that an investment in the shares of individual companies will decline in value. It is therefore recommended that investors pay close attention to diversifying their risk and they are furthermore advised to seek assistance from experts, such as licensed financial institutions, to assist them in their assessment of the Shares as an investment option.

Investments in equities bear with them diverse risk. Examples of these risks are liquidity risk, counterparty- and market risk. Liquidity risk is the risk that investors are not able to dispose of certain shares when they so desire or cannot dispose of them at a price deemed acceptable. This risk can be measured by the difference in the ask and bid rates of the relevant shares. Counterparty risk is the risk that a counterparty in any given transaction does not hold up his or her end of the contract upon settlement. Market risk is the risk of fluctuations in the market price of shares. Multiple events can lead to market price fluctuations, resulting in either an increase or decrease in share price. Many of such events are outside the control of a company's management.

Companies are dependent on the legal framework imposed by local authorities at any given time. Once their shares are admitted to trading on a regulated market companies are further subject to the laws and regulations pertaining to financial markets. Extensive or far reaching changes to that legal framework can negatively affect financial markets or cause turbulence resulting in fluctuations in the price of listed securities.

1.2 Market risk

Financial markets have from time to time experienced price and volume fluctuations, which have been unrelated to the operating performance or prospects of individual companies. Consequently, the market price, and liquidity of, the Shares may be materially adversely affected by general declines in the market or by declines in the market for similar securities. The aforementioned external factors are outside the control of the Company's Executive Committee.

The price of the Shares can be higher or lower than the market price as determined by investors in the secondary market. There is a risk that investors that purchase Shares in the Company cannot liquidate their holdings at the purchase price, or a price higher than the purchase price, in the secondary market. There is also the risk that they cannot liquidate their holdings at all, despite being willing to do so at a discounted price.

1.3 Liquidity risk

The liquidity of the Shares is subject to fluctuations in response to factors such as actual or anticipated variations in the Company's operating results, changes in estimates or recommendations by financial analysts, currency exchange rates, regulatory developments, general market conditions and other factors. An example of this would be if a large shareholder needed, or decided to, liquidate his or her's entire holdings at once which would then significantly increase the supply of Shares which in turn would likely put downward pressure on their price.

Active market making in the Shares can act to mitigate liquidity risk. Despite such an effort there can be no guarantee issued that shareholders in Icelandair Group will be able to dispose of their holdings at the price, or in the volume, desired in the secondary market. Liquidity risk is partially determined by the number of shareholders in the Company. For information on market making agreements in place regarding the Shares please refer to Chapter 4.2 *Market making* in this Securities Note.

1.4 Ownership and control

Investors must take into account that the structure and composition of a Company's shareholder base can be a risk factor. Large shareholders, by deciding to jointly apply their voting rights, may decide the vote on any given issue at shareholders' meetings. Such large shareholders further have the power to veto change of control or resolve to take actions that might materially adversely affect the share price of the Company. A large concentration of ownership by lead investors further decreases the free float of shares in the secondary market, thereby increasing liquidity risk.

To the best of the Company's knowledge there exist no shareholders' agreements regarding Shares in Icelandair Group with the purpose of exerting joint influence on the Company. Nor is the Company aware of any agreements that may result in change of control of the Company.

Investors should nonetheless be aware that ownership of the Company can change quickly and without notice.

Holders of shares traded on the regulated market of Nasdaq Iceland are subject to the provisions of Act No. 108/2007 on Securities Transactions ("the Securities Transactions Act"), including but not limited to Chapter IX. on changes in significant ownership stakes (flagging) and Chapter X. on takeover bids. It is assumed that no shareholder will hold more than 25% of the total share capital in Icelandair Group at the time of the new Shares being admitted to trading on the regulated market of the Nasdaq Iceland.

At close of business on 6 May 2019 there were 3,183 shareholders in Icelandair Group. At the time, the 20 largest shareholders, whereof 12 were pension funds, held a total of 73.9% of tradeable Shares in the Company. By the commencement of trading on 8 May 2019, absent of any other changes, it is expected that the total amount of tradeable shares in the Company will have increased by 625,000,000 held by a new shareholder, PAR Investment Partners L.P. which will then be the second largest shareholder with an 11.5% holding.

Investors are advised to acquaint themselves with information on the Company, as well as the shareholders, contained in Chapter 7 *Share Capital and Shareholders* in the Company's Share Registration Document, dated 7 May 2019.

1.5 Dilution

Generally speaking the Company's shareholders face dilution in the event of a share capital increase unless they subscribe to new Shares pro rated to their existing holdings. Additionally, Shareholders may be faced with increased risk to their investment alongside dilution of their existing Shares depending on how the increased capital will be put to use.

At a shareholders' meeting on 30 November 2018 shareholders of the Company agreed a share capital increase amounting to ISK 625,000,000 (sixhundred-and-twentyfive-million) in

nominal value. At a shareholders' meeting on 24 April 2019 shareholders voted to waive shareholders' pre-emptive rights to the new Shares. The dilution resulting from the share increase corresponds to 11.5%.

Shareholders may at a future date vote to further increase share capital that, unless subscribed to pro rata to holdings, may further dilute the holdings of shareholders. Share capital in the Company cannot be increased unless agreed by two thirds of votes cast at a shareholders' meeting as well as by the votes of holders of at least two thirds of the Shares represented at the respective meeting. According to the Articles of Association shareholders shall have pre-emptive rights to purchase new Shares issued by the Company in proportion to their registered holdings. Exemptions from this are authorised, cf. Article 34 (3) of Act No. 2/1995 respecting Public Limited Companies ("the Public Companies Act").

Investors are advised to acquaint themselves with information on rights associated with holdings in Shares contained in Chapter 4.4 *Priority and voting rights* in this Securities Note.

1.6 Trading in the secondary market

An active and efficient secondary market with sufficient volume of trading in the Shares is conducive to investors profiting from their investment. There can be no guarantee that such a market for the Shares will always exist. There might arise a situation, for a shorter or longer term, where investors will not be able to sell their Shares easily or only sell them at a discount from their purchase price or at a lower price than comparable securities from other issuers.

02 NOTICE TO INVESTORS

This Securities Note forms a part of Icelandair Group's Prospectus, dated 7 May 2019, which has been prepared in connection with the issuance of 625,000,000 new Shares ("the New Shares") in Icelandair and an application for their admittance to trading on the regulated market of the Nasdaq Iceland Stock Exchange, as described herein.

For a definition of terms used throughout this Securities Note, see Chapter 2.4 *Definitions and References.*

The Prospectus has been prepared to provide information about Icelandair Group, its business operations and financial standing. Focus was placed on all representation material being put forth in a clear and concise manner, easily understood.

The level of disclosure complies with Annexes I, III and XXII to EC Commission Regulation EC/809/2004 that implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 ("The Prospectus Directive") and all subsequent amendments thereto. The Prospectus Directive has been implemented into Icelandic law through the Securities Transactions Act and derived secondary legislation. The Prospectus further complies with the Nasdaq Iceland Rules for Issuers dated 1 July 2018.

The Prospectus is published electronically at the Company's website, https://www.icelandairgroup.is/investors/reports-and-presentations/prospectus/ and consists of three separate documents; a Summary, this Securities Note and a Share Registration Document, all dated 7 May 2019. Printed copies can be ordered, free of charge, through iris@icelandairgroup.is for up to twelve months post publication. This Prospectus has been prepared solely in the English language, however an Icelandic translation of the Summary has been prepared and made available to investors. The Icelandic language version of the Summary is an unofficial translation of the English original and in case of any discrepancies the English version shall prevail.

The Financial Supervisory Authority-Iceland ("FME") has scrutinised and approved the Prospectus on 7 May 2019. The approval and registration of the FME does not imply that the FME has controlled the accuracy or completeness of the included information and gives no guarantee to that effect. The approval by the FME only relates to the information included in accordance with the pre-defined disclosure requirements of the stated Annexes.

The distribution of this Prospectus and the sale of the Shares in certain jurisdictions may be restricted by law. This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase any of the Shares in any jurisdiction in which that would be considered unlawful. Accordingly, neither this Prospectus nor any advertisement or sales material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. The Company requires persons in possession of this Prospectus to inform themselves of and observe any such restrictions and behave accordingly.

This Prospectus and any issuance and sales of Shares hereunder shall be governed by and interpreted in accordance with Icelandic law. The courts of Iceland, with Reykjavík as legal venue, shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Prospectus.

All sections of the Prospectus should be read in conjunction and as a whole. Special attention is drawn to the importance of investors reading and fully understanding the associated risks of investing in the Shares by familiarising themselves with the contents of Chapter 1 *Risk Factors* in both this Securities Note and the Share Registration Document. In making an investment decision, investors must rely on their own examination, and analysis of Icelandair Group including the merits and risks involved. Investors are reminded that shares are risky investments that are based on expectations, not promises. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a subscription to the Shares. Neither the Company as the Issuer nor Íslandsbanki hf. ("Íslandsbanki") as the Listing Advisor should be seen as making any promise of positive future operational results or an acceptable return on investment. Íslandsbanki is not under any obligation to evaluate whether the purchase of the Shares is appropriate for investors. Investors participating in such transactions do not enjoy protection as a retail client in accordance with Art. 16 of the Securities Transactions Act.

Information in the Prospectus is based on circumstances and facts on the date it is signed, unless otherwise explicitely stated. The Issuer has furnished the information in this Prospectus to provide a presentation of Icelandair Group and to inform investors about the Shares. Unless otherwise explicitly stated, the source of information included in this Prospectus is the Issuer. If significant new information, material mistakes or inaccuracy relating to information in the Prospectus, which could affect the assessment of the Shares, is discovered between the time the Prospectus is approved by FME, and the time when the Shares are admitted to trading, a supplement to the Prospectus shall be prepared containing the changes and/or new information in question in accordance with Article 46 of aforementioned Act. The supplement shall be approved within seven working days and published in the same manner as the original Prospectus. The Summary and any translation thereof shall also be supplemented as relevant. Investors who have agreed to purchase the Shares prior to the supplement being published shall have the right to withdraw their subscriptions for at least two working days following the publication of the supplement.

Unless otherwise stated, references to any laws, acts or regulations are references to acts passed by the Icelandic parliament and regulations issued by Icelandic governmental agencies unless otherwise clear from the context.

2.1 Statement by the Company

We, the undersigned, the Chairman of the Board of Directors and the President and Chief Executive Officer of Icelandair Group hf., ID No. 631205-1780, registered office at Reykjavíkurflugvöllur, 101 Reykjavík, Iceland, hereby declare for and on behalf of the Company that having taken all reasonable care to ensure that such is the case, the information contained in this Securities Note dated 7 May 2019 is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 7 May 2019

For and on behalf of the Company

Úlfar Steindórsson

Chairman of the Board of Directors

and

Bogi Nils Bogason

President and Chief Executive Officer

2.2 The Listing Advisor

Íslandsbanki has acted in the capacity of Listing Advisor in relation to the New Shares being admitted to trading on the regulated market of Nasdaq Iceland. Íslandsbanki has prepared the Prospectus in close co-operation with the Company's Executive Committee and Board of Directors. The Prospectus is based on information provided by the Company, including audited consolidated financial statements.

Íslandsbanki has not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is assumed by Íslandsbanki as to the accuracy or completeness of the information contained in this document or any other information provided by the Company in connection with the admittance of the New Shares to trading.

2.3 Potential Conflict of Interest

Investors are advised of the following interests Íslandsbanki as the Listing advisor has regarding Icelandair Group.

Íslandsbanki was retained by the Company to oversee the settlement of the sale, the process of issuing the New Shares and getting them admitted to trading on Nasdaq Iceland's regulated market. Íslandsbanki accepts a fee for their services to the Company, which *inter alia* include the compilation of this Prospectus, dated 7 May 2019.

Íslandsbanki's Corporate Banking division is a lender to Icelandair Group and provides general banking services to the Company.

Íslandsbanki's FX Sales division provides foreign exchange trading services to Icelandair Group.

Íslandsbanki holds a total of 22.449.752 Shares in the Issuer.

Íslandssjóðir, an Icelandic fund management company, fully owned by Íslandsbanki, holds a total of 34,205,192 Shares in the Issuer.

In accordance with Article 8 of the Securities Transactions Act, Íslandsbanki has in place provisions for the treatment of potential conflicts of interest. Investors are advised to acquaint themselves with these provision on the bank's website, https://islandsbanki-res.cloudinary.com/image/upload/v1/documents/Utdrattur_ur_stefnu_Islandsbanka_hf_um_hagsmunaarekstra.pdf (Icelandic only).

Investors are advised to further acquaint themselves of the listed potential conflicts involving members of the Board of Directors of Icelandair Group that can bee seen in Chapter 8.3.2 *Statements and Potential Conflicts of Interest* in the Company's Share Registration Document, dated 7 May 2019.

2.4 Definitions and References

In this Securties Note, the below shall be construed to have the following meaning unless otherwise explicitly stated or clear from context.

AGM	is a reference to Icelandir Group's Annual General Meeting
Articles, the	is a reference to Icelandair Group's Articles of Association, dated 24 April 2019
Board, the	is a reference to the Board of Directors of Icelandair Group hf.
EEA	is a reference to the European Ecomic Area, whereby Iceland, Norway and Liechtenstein gain access to the EU's single market on the basis that they adopt most EU legislation concerning the single market
EUR	is a reference to the Euro, the legal tender of the European Union
Executive Committee, the	is a reference to the individuals detailed in Chapter 8.3 *Executive Committee* in the Company's Share Registration Document dated 7 May 2019
FME	is a reference to the Financial Supervisory Authority of Iceland, ID No. 541298-3209, Katrínartún 2, 105 Reykjavík, Iceland

IFRS	is a reference to International Financial Reporting Standards as approved by the European Union according to Directive 1606/2002
Icelandair Group, the Company and the Issuer	is a reference to Icelandair Group hf. ID No. 631205-1780, Reykjavíkurflugvöllur, 101 Reykjavík, Iceland
ISK	is a reference to Icelandic Krona, the legal tender of Iceland
KPMG	is a reference to auditing firm KPMG ehf., ID No. 590975-0449, Borgartún 27, 105 Reykjavík, Iceland
Listing Advisor, the	is a reference to Íslandsbanki hf., ID No. 491008-0160, Hagasmári 3, 201 Kópavogur, Iceland
Nasdaq Iceland and the Nasdaq Iceland Stock Exchange	is a reference to the Nasdaq Iceland ID No. 681298-2829, Laugavegur 182, 105 Reykjavik, Iceland which operates Iceland's only regulated market
New Shares, the	is a reference to the 625,000,000 shares in Icelandair Group being issued and admitted to trading
Prospectus	is a reference to Icelandair Group's Prospectus, dated 7 May 2019
Securities Note, the	is a reference to Icelandair Group's Securities Note, dated 7 May 2019
Shares, the	is a reference to shares issued by Icelandair Group hf.
Share Registration Document, the	is a reference to Icelandair Group's Share Registration Document dated 7 May 2019
USD	is a reference to United States dollars, the legal tender of the United States of America

03 WORKING CAPITAL STATEMENT

The Chairman of the Board of Directors and the President and Chief Executive Officer of Icelandair Group, for and on behalf of the Issuer, declare that at the date of this Securities Note the Company has sufficient working capital to fulfil its requirements for the next 12 months thereafter. The financial information contained in item 1 below has been prepared by the Company based on the Company's financial position as at 31 March 2019. The information is neither audited nor reviewed.

On 3 April 2019 it was announced that the Company had reached a binding agreement with PAR Capital Management, a Boston-based investment fund, whereby the latter would purchase 625,000,000 New Shares in Icelandair Group, equalling an 11.5% stake in the Company. The only pre-condition of the purchase was that existing shareholders waive their pre-emptive rights to the New Shares which they did at a shareholders' meeting on 24 April 2019. The Company shall issue the New Shares within 14 days of that date otherwise the buyer shall have no obligation to purchase the Shares. The purchase price was determined ISK 9.03 per share which corresponded to the trailing three months' average closing price of the Company's Shares at the time of the agreement. The total consideration relating to the New Shares thus amounts to ISK 5,643,750,000. All costs associated with their issuance and admittance to trading is borne by the Company and amounts to ISK 100 million. The net proceeds due the Company therefore amount to ISK 5,543,750,000. There has been no other significant change to the Company's financial or trading position since 31 March 2019.

Item 1. Statement of capitalisation and indebtedness as at 31 March 2019

USD '000	
Non-current liabilities	
Thereof guaranteed	0
Thereof collateralised loans and borrowings	265,129
Thereof not guaranteed/collateralised	137,322
Total non-current liabilities	**402,451**
Current liabilities	
Thereof guaranteed	0
Thereof collateralised loans and borrowings	0
Thereof not guaranteed/collateralised	1,053,999
Total current liabilities	**1,053,999**
Equity	
Share capital	39,053
Share premium	133,513
Reserves	34,056
Retained earnings	217,622
Non-controlling interest	1,561
Total equity	**425,805**
Total capitalisation	**1,882,255**

04 THE SHARES AND ADMITTANCE TO TRADING

4.1 The admittance of the New Shares to trading

The Company's Shares are traded on the Nasdaq Iceland Stock Exchange under the ticker symbol ICEAIR. The Board of Directors of Icelandair Group has applied for all New Shares in the Company to be admitted to trading on the regulated market of the Nasdaq Iceland as soon as practically possible.

The objective of the share capital increase is to further solidify the Company's financial position which will enable it to develop its fleet with the aim of supporting the long-term profitable growth of the Route Network and making it capable of seizing opportunities that may present themselves in the current operational climate.

Icelandair Group bears all cost associated with the issuance of the New Shares and their admittance to trading. The total cost borne by the Company is estimated to be ISK 100 million and consists of a fee to the Listing Advisor, costs associated with the scrutiny and approval of the Prospectus, the Nasdaq Iceland listing fees along with other cost directly associated with the admittance to trading.

4.2 Market making

At the date of this Securities Note the Company has market making agreements with Íslandsbanki and Landsbankinn ("Market Makers"). The Market Makers place bids and offers in the Shares of the Company for a certain amount with a fixed spread between the bid and offer price. The Market Makers shall place bids and offers in the minimum nominal amount of ISK 1,000,000 at a price per share decided by the Market Makers that may deviate from the last trading price by more than 3 percentage points. The spread between the bid and offer price may not exceed 1.5 percentage points unless the change in the Share's price within a single trading day exceeds 10 percentage points, in which case the spread may reach as high as 3 percentage points. If either Market Maker's trades in the Company's Shares in any single trading day exceeds ISK 300,000,000 in market value it acts to void that Market Maker's obligation to maintain the aforementioned spread range within that trading day.

4.3 Share capital

The total issued share capital of Icelandair Group, at the date of this Securities Note, is ISK 5,437,660,653 in nominal value, divided into an equal number of shares, each with a nominal value of ISK 1. Thereof, 4,968,910,653 Shares have been fully paid and the remaining 468,750,000 will be paid against delivery on 7 May 2019. Upon settlement all Shares will be part of the share capital. The share capital consists of a single class of shares and each issued Share carries equal rights at shareholders' meetings according to the Company's Articles of Association. The Shares are issued in ISK in accordance with the Public Companies Act. The New Shares are expected to be electronically issued on 7 May 2019 and admitted to trading no later than 8 May 2019.

The Shares are electronically registered at the Nasdaq CSD Iceland in accordance with Act No. 131/1997 on the Electronic Registration of Titles to Securities. The ISIN number of the Shares is IS0000013464. The Shares are registered in book-entry form under the name and

Icelandic ID No. of the relevant shareholder or his/her nominee. The electronic share registry is considered lawful proof of ownership of Shares in the Company. Dividends and announcements shall at any given time be sent to the party registered as the owner of the respective Shares in the Company's share registry.

Shareholder rights are subject to the Company's Articles of Association and Icelandic legislation in effect at any given time.

4.4 Priority and voting rights

One vote is attached to each Share in the Company at shareholders' meetings. Shares in the Company may be freely traded, transferred or pledged unless otherwise stipulated by law.

In accordance with Article 34 of the Public Companies Act shareholders enjoy pre-emptive rights to all new Shares in proportion to their existing shareholdings. That notwithstanding a shareholders' meeting may resolve to waive such pre-emptive rights. Such a resolution can only be passed by the same proportion of votes needed to amend the Company's Articles of Association. In accordance with article 2.4 of the Company's Articles of Association shareholders shall have a pre-emptive right to purchase new Shares in proportion to their registered holdings[1]. Exemptions from this are authorised, cf. Article 34 (3) of the Public Companies Act.

In accordance with Article 93 of the Public Companies Act a company's Articles of Association may only be amended at a lawful Annual General Meeting ("AGM") or extraordinary shareholders' meeting, provided that the notice of the meeting clearly indicates that such an amendment is proposed and outlines the main substance of the amendment. An amendment is valid only if it has the support of at least 2/3 of the votes cast and the support of shareholders controlling at least 2/3 of the share capital represented at the respective meeting, providing always that no other proportion of votes is required by the Articles of Association or statutory law.

The following amendments to the Articles of Association can only be passed with the consensus of all shareholders, cf. Article 94 of the Public Companies Act:

i. Reducing dividends or other payments to shareholders,

ii. Increasing shareholders' obligations to the Company,

iii. Limiting shareholders' freedom to exercise the rights afforded to them in conjunction with their shareholdings, cf. Articles 22 and 23 of the Public Companies Act, or if shareholders are forced to accept redemption of their shares without the dissolution of the Company.

[1] At a shareholders' meeting on 24 April 2019 shareholders agreed to waive their pre-emptive rights to the 625,000,000 New Shares being admitted to trading as per this Prospectus.

4.5 Dividends

The payment of dividends shall be resolved at the AGM based on a proposal from the Board of Directors. The AGM must be held within eight months from the end of the financial year. The AGM decides the payment date which must be within six months of the AGM. The AGM moreover decides the ex-date, i.e. the date as of which the Shares shall start to trade at a value less the agreed dividend payment. The AGM shall, as applicable, also resolve the treatment of losses following a proposal from the Board of Directors.

The right to dividend payments are afforded to the registered shareholders as at the record date, i.e. three days post the declaration date (the date of the AGM). Shareholders are solely responsible for making sure that their residence is correctly entered into the Company's share registry.

Dividends may be claimed at the Company's registered offices for up to four years post the payment date, after which they lapse and can be lawfully retained by the Company.

The Board of Directors of Icelandair Group has adopted a dividend policy according to which the Company's goal is to pay 20-40% of each year's annual net profit as dividend to its shareholders. The final decision on dividend payments will be based on the financial position of the Company, operating capital requirements and market conditions. Dividend payments may at times also be impacted by the Company's liquidity needs, financial covenants and other possible factors that might limit dividend payments to shareholders at any given time. These considerations might affect the proposed amount of dividend and even lead to no dividend payment. The Company dividend payment amounted to USD 5.2 million for the 2016 fiscal year and USD 7.2 million for the 2017 fiscal year. No dividends were paid for the 2018 fiscal year.

The Company is subject to restrictions on dividend payments in accordance with the provisions of the Public Companies Act. According to Article 99 (1) of said Act, the Company is only authorised to allocate profit as dividends in accordance with (i) approved annual accounts for the immediate past fiscal year, (ii) profit brought forward from previous years and (iii) distributable reserves, after deduction of (a) any uncovered losses and (b) moneys which, according to law or the Articles of Association, shall be contributed to a reserve fund or for other use.

Moreover, the Company is bound by covenants concerning dividend payments stipulated in loan agreements as applicable[2].

i. No payments according to any loan agreements entered into by the Company or any of the subsidiaries within the Group are past due;

ii. The financial conditions set by the loan agreement are complied with;

iii. The Company's equity ratio maintains a minimum of 30% post dividend payment;

iv. The profits paid out are not the result of a one-off sale of fixed assets, due to the revaluation of assets or due to a change in accounting procedures.

Following a written procedure process with holders of the Company's bond class bearing ISIN N000107769982 the Company agreed to a ban on dividend payments until and including 30 June 2019.

[2] Covenants listed in items i-iv are in place in some and not necessarily all of the Company's loan or financing agreements.

The Company follows Nasdaq Iceland's proposals on dividend payments, which is that trading in the Shares exclusive of dividends begins the business day immediately following the day the dividend proposal is approved and that payment of dividends will be made no later than 30 days after the record date. With the exception of dividend payments, shareholders are not entitled to any of the Company's profits.

4.6 Mandatory takeover bids

Icelandair Group is subject to the provisions of Chapter X. of the Securities Transactions Act, legislation that is based on Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004. According to Article 100 (1) of the Securities Transactions Act, any party that, directly or indirectly, acquires control of the Company, is obligated to make other shareholders of the Company a takeover bid within four weeks of acquisition. The offer price must at minimum match the highest price paid for the Shares by the acquirer or his/her partners during the previous six months.

Control of the Company in this respect refers to a party, and any party acting in concert with him/her, has acquired:

i. In total at least 30% of the voting rights in the Company;

ii. The right to control at least 30% of the voting rights in the Company by virtue of an agreement with other shareholders;

iii. The right to appoint or dismiss the majority of the members of the Company's Board of Directors.

It should be pointed out that any party, or parties, in control of Icelandair Group at the time of this Securities Note are not under an obligation to make a mandatory takeover bid, cf. Article 100 (7) of the Securities Transactions Act. Mandatory takeover bid can only be evoked if any one party acquires more than 30% of Shares in Icelandair Group, cf. Article 100 (1) of the Securities Transactions Act, unless two or more shareholders have previously agreed on the joint exercise of their Shares. To the extent known by the Company no such agreements are in place.

4.7 Redemption provisions

According to Icelandair Group's Articles of Association, shareholders are not obligated to accept their Shares being redeemed, except as stipulated by law.

Under Article 24 of the Public Companies Act, a shareholder holding more than $^{9}/_{10}$ of a company's share capital and controlling an equivalent proportion of its voting rights may decide, in conjunction with the board of directors of the company, that other shareholders in the company be subject to a mandatory redemption of their shares. Correspondingly, each individual minority shareholder may demand redemption from the shareholder.

Article 110 of the Securities Transactions Act stipulates the same provisions on redemption. The Article states that if the offering party and parties acting in concert with said party acquire more than $^{9}/_{10}$ of the share capital or voting rights in the target company, the offering party and board of the company may jointly decide that other shareholders shall be subject to redemption of their shares. The same right is afforded to the minority shareholders in such cases, i.e. the minority shareholders may demand that their shares be redeemed. Article 110 of the Securities

Transactions Act applies from the day the shares of a company are admitted to trading on a regulated market and remains in effect as long as the shares are listed.

4.8 Dissolution or merger of the Company

The provisions of Chapter XIV. of the Public Companies Act applies to a merger of the Company with other companies as per Article 14 of Icelandair Group's Articles of Association. To pass, such a resolution needs the same proportion of votes needed to amend the Company's Articles. The same shareholders' meeting shall, in case of dissolution, resolve how to dispose of its assets and pay off its debt as stipulated by Chapter XIII. of the Public Companies Act.

4.9 Tax issues

The taxation of income from investments in shares is dependent on current tax legislation at any given time, which is subject to change. What follows is a discussion of the main aspects of current tax legislation. The discussion is not exhaustive, and investors are encouraged to familiarise themselves with all changes and revisions to the tax legislation and seek outside expert counsel of any and all specific tax issues relevant for them, such as potential tax consequences of investing in the Shares, including the effects of foreign legislations and double taxation treaties Iceland has made with other countries.

Icelandair Group will not withhold any tax, deductions or other public levies in relation to trading in the Shares other than those stipulated by the provisons of Act No. 94/1996 on Withholding of Tax on Financial Income ("the Capital Income Tax Act"), Act No. 90/2003 on Income Tax ("the Income Tax Act") and Act No. 45/1987 on the Withholding of Public Levies at Source, in addition to other legislation in effect or that may be passed in the future.

4.9.1 Taxation on dividend payments

The Company is obligated to withhold tax on dividend payments to individuals and legal entities in Iceland, in accordance with provisions of the Capital Income Tax Act. The tax rate of capital income in Iceland is 22% at the date of this Securities Note. Icelandair Group is further obligated to withhold tax on dividend payments to non-residents. As in the case of Iceland the capital income tax rate of non-residents is 22%.

For income tax purposes most taxable legal entities, such as limited liability companies, may declare a deemed deduction of the same amount as the dividend received on their tax returns, cf. Article 31 (9) of the Income Tax Act. Consequently, there will be no effective taxation of dividend income of such companies. If the withheld tax is higher than the levied tax, the difference will be refunded upon assessment of tax returns.

At the date of this Securities Note the capital income tax rate of non-resident legal entities is 22%. If a non-resident legal entity is registered in a country within the European Economic Area it enjoys the same deduction rights as enjoyed by domestic legal entitites and have been described above.

Double taxation treaties may contain provisions of exemptions from withholding tax, or provisions for lowering the tax rate. Iceland has made double taxation treaties with about 45 countries. The treaties are generally in accordance with a model taxation treaty from OECD

(OECD Model Tax Convention on Income and on Capital). Reference is made to the website of the Directorate of Internal Revenue for details on existing double taxation treaties.

4.9.2 Taxation on profit from the sale or disposal of shares

Capital gains constitute taxable income according to the Income Tax Act. The current income tax rate is 22%. Upon the sale or other disposal of shares, the shareholders' average acquisition costs for all shares of the same class and type will be used as the tax base on which the capital gain of the sale/disposal is calculated.

Capital gains from the sale of shares by individuals not residing in Iceland are taxable in Iceland according to the Income Tax Act. For individuals the income tax rate is 22% and for foreign legal entities the tax rate is 22%, unless existing treaties contain provisions to the contrary. However, non-resident legal entities within the European Economic Area can deduct from their income, any gains from the sale or other disposals of shares.

Individuals can deduct losses from the sale of one share class from the profits from the sale of other shares. The profit and loss must however occur within the same calendar year. Losses from the sale of shares cannot be carried forward and offset against future capital gains from the sale of shares. In the case of legal entities, capital gains from the sale or disposal of shares are taxable income according to the Income Tax Act. However, said Act permits limited liability companies to deduct from their income any gains from sale or other disposals of shares.

Share Registration Document
7 May 2019

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01 RISK FACTORS

Icelandair Group hf., ("Icelandair Group", "the Company" or "the Issuer") is an Icelandic airline company whose main purpose is the operation of an international Route Network through a hub-and-spoke model based in its home market, Iceland. Icelandair Group is the parent company of several subsidiaries, hereinafter collectively refered to as "the Group". The cornerstone of the Issuer's operations is Icelandair ehf. ("Icelandair" or "The Airline") which in 2018 accounted for 73% of the Group's revenues.

What follows in this Chapter 1 Risk Factors is a description of the risks and uncertainties that the Issuer believes are material to the Group's operations and the industry in which it operates. The Airline is by far the most important factor to the Group's results of operations and is therefore the main subject of the risks and uncertainties in this Chapter 1 and throughout this Share Registration Document[1]. Risk factors that specifically only apply to subsidiaries Loftleiðir-Icelandic and Air Iceland Connect are considered immaterial. The same applies to risk factors applicable to subsidiaries currently either in or planned for divestment, Icelandair Hotels and Iceland Travel.

An investment in shares bears inherent risk. Before making an investment decision with respect to shares in Icelandair Group ("the Shares") investors should carefully consider the risk factors and all information contained in this Share Registration Document as well as the associated Securities Note both dated 7 May 2019, along with all documents incorporated by reference, including the Group´s full consolidated financial statements and the notes thereto.

An investment in the Shares is suitable only for investors who understand the risks associated with this type of investment and that, by investing in the Shares, they could lose all or part of their investment. The fact that certain negative events associated with a given risk factor did not occur in the past does not mean that the risks and uncertainties described herein should not be considered prior to making an investment decision in respect of the Shares.

If any of the following risks were to materialise, individually or together with other circumstances, they could have a material and adverse effect on Icelandair Group and/or its business, results of operations, cash flows, financial condition and/or prospects, which may cause a decline in the value and trading price of the Shares, resulting in the loss of all or part of an investment in the Shares.

Additional risks and uncertainties that do not currently exist, that are not presently considered material, or of which the Company is unaware, may also impair the business and operations of the Company. These risks and uncertainties could have a material adverse impact on the business, income, profits, assets, liquidity and share price of the Company.

The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude of their potential impact on the Company's business, results of operations, cash flows, financial condition and/or prospects. The risks mentioned herein could materialise individually or cumulatively. Any quantification of the significance of each individual risk factor for the Company would be misguiding, as the risk factors mentioned in the Share Registration Document may materialize to a greater or lesser degree.

The information in this chapter is presented as of the date of the Share Registration Document, unless otherwise explicitly noted, and is subject to change, completion or amendment without notice.

[1] The Issuer and the Airline are operated under a single executive management and Board of Directors.

1.1 Risks Related to General Macroeconomic Conditions

1.1.1 The Company's operations are highly correlated to general local as well as global economic conditions which could adversely affect its business, results of operation, liquidity, financial condition and capital resources

General macroeconomic risks such as slowing economic growth, changes in interest rates, fluctuations in exchange rates, employment levels and inflation, whether globally or locally, can adversely affect the Company's operations.

Little or slowing growth in the Company's main markets[2] may reduce demand for air travel which might affect revenues and/or the Company's strategy of positioning Iceland as the hub in its international route network. A sustained period of negative growth would likely result in diminished consumer and business confidence, rising unemployment and lower purchasing power.

Uncertain economic and financial market conditions can affect interest rates and currency exchange rates. The Company cannot guarantee that its liquidity and access to acceptably priced financing will always be sufficient or unaffected by external macroeconomic trends or financial market volatility, whether global or domestic. This in turn might have subsequent implications for loan covenants, the Company's financing costs, fair value of assets and overall financial condition. For more detailed information on risks related to loan covenants reference is made to Chapter 1.3.9 *The Company is exposed to contractual risk regarding loan covenants.*

The Company is headquartered in Iceland with its international Route Network operated under an Icelandic Air Operator Certificate ("AOC"). The vast majority of its employees and shareholders are Icelandic and a significant portion of its operating costs are payable in ISK, most notably salaries and salary related expenses. The Company is therefore affected by the country's general economic conditions. The general rate of employment and sentiment in the local labour market, the exchange rate of the ISK and sentiment in local financial markets are among Iceland-specific issues that can affect the Company's finances, operations or share price. For more detailed coverage of risks related to labour disputes reference is made to Chapter 1.2.5 *The airline industry is vulnerable to labour disputes and strikes*. For more detailed coverage of foreign currency and exchange rate risk reference is made to Chapter 1.3.6 *The Company is exposed to foreign currency risk*. For more detailed coverage of risks related to liquidity reference is made to Chapter 1.3.7 *The Company is exposed to liquidity risk.* For more detailed coverage of risks related to credit risk reference is made to Chapter 1.3.8 *The Company is exposed to credit risk.*

1.1.2 The airline industry is exposed to and affected by geopolitical conditions and sanctions

As well as macroeconomic conditions, the airline industry is sensitive to geopolitical conditions. Examples of such current and/or recent tensions include Brexit, indications of a possible trade war between the U.S. and China, potential U.S. travel restrictions, the relationship between Russia and Ukraine and international sanctions imposed by the EU and the U.S. on, among others, Russia. Such geopolitical tensions can impact the demand of leisure and business travellers for flights, and

[2] Looking at the Group's 2018 revenues based on the geographical location of customers North America is the largest market with a 40% share followed by Iceland (22%), West Continental Europe (14%) and Scandinavia (7%). The passenger mix for 2018 shows that 51% of passengers were so-called VIA passengers (crossing the North Atlantic through Iceland), 36% were TO passengers (incoming to Iceland) and 13% were FROM passengers (outbound from Iceland).

subsequently supply of air travel to affected areas, as well as potentially impeding the Group's supply of fuel or other inputs.

In 2016 voters in the United Kingdom ("UK") voted to exit the European Union and have since commenced the process of leaving by triggering Article 50 of the Treaty of Lisbon. There is no precedent for such a process and the implications are still largely unclear. The risks are that the withdrawal could lead to adverse economic and market conditions in the UK market, temporarily diminishing the demand for air travel by UK citizens. In 2018 UK citizens represented the Company's fifth largest customer group with 6% of revenue. Although the UK is an important destination for Icelandair the Company expects immaterial changes in demand for travel to the UK, pointing out that Brexit will not change the visa status of neither Icelanders nor Americans, the latter of which are a large source market for the Company's cross North Atlantic business.

The Company has been and is monitoring developments in the Brexit process with the objective of determining whether any changes to air services transit agreements or demands for airline operators flying into the UK should be expected. As of the date of this Share Registration Document the Company sees this risk as minimal although it cannot be entirely ruled out. Should changes or increased demands be made that are of any material importance for the Company's financial standing or operational results the Company will issue a statement to that effect.

1.2 Risks Related to the Airline and Tourism Industry

1.2.1 Competition in the airline industry is fierce and can place downward pressure on yields

The Company faces intensive competition in all fields of its activities. The airline aspect of the Company's operations includes both scheduled3 and charter4 services for passengers and freight. The level of competition amongst airlines is high, and pricing decisions are heavily dependent on competition from other airlines. In general, the airline industry is susceptible to fare discounting due to low marginal costs of adding passengers to otherwise empty seats. New market entrants, especially low-cost carriers, mergers, acquisitions, consolidations, new partnerships and increased transparency of pricing in the air travel market add to airline competition. Should competition increase even further in any of the Company's key transport markets, including the Icelandic market, it could affect the Company's profitability.

On 28 March 2019 Icelandair's main local competitor WOW air ("WOW") declared bankruptcy and immediately suspended all operations. On 10 April, with an update issued on 3 May, Icelandair announced some changes to its flight schedule, in part to accommodate the exit of WOW. However, due to the current grounding of the Boeing 737 MAX ("the B737 MAX") aircraft model Icelandair is restrained in its ability to expand or otherwise change its schedule. Once the B737 MAX is operational again the Airline may choose to reorganise its flight schedule further, to the extent it feels is economical and profitable. Despite the exit of WOW competition in the Airline's markets remains fierce with 24 passenger airlines making scheduled flights to and from Iceland in the 2019 summer season and 15 airlines currently planning on making scheduled flights during the 2019/20205 winter season. Competition for the route across the Atlantic is also fierce and mostly unaffected by the exit of WOW. For further information on the Airline's announced schedule

[3] Icelandair, Air Iceland Connect and Icelandair Cargo.
[4] Loftleiðir-Icelandic.
[5] Source:ISAVIA.

changes see Chapter 1.2.12 *The airline industry is exposed to a risk of significant losses from aviation accidents, including plane crashes, aircraft groundings or malfunctions and other disasters* in this Share Registration Document.

1.2.2 The airline industry is susceptible to strong seasonality in demand making the Company more vulnerable to demand shocks or disruptions in certain parts of the year

The Company's most important subsidiary operates in an industry where demand has traditionally been much higher in the summer ("High Season") than other seasons. Although notable strides have been made in reducing seasonality in the past years, the Company's revenues in the second and third quarters nonetheless continue to be significantly higher than that of the first and fourth each year6. Lower demand for air travel, flight cancellations or other factors affecting aircraft utilisation would therefore have a proportionately greater impact on the Company during the High Season than during other periods. The seasonality in turnover and profitability poses greater risk for the annual financial outcome than otherwise, leaving the Company more vulnerable to disruptions to production inputs or external demand shocks. Any interruptions during the High Season could have adverse effects on the financial outcome of operations for the whole financial year.

1.2.3 The airline industry is subject to volatile jet fuel prices

Airline operators are highly sensitive to jet fuel prices and availability. Jet fuel can be subject to significant price volatility due to fluctuations in supply and demand and investor behaviour through speculative trading. These are influenced by factors ranging from political unrest to terrorist attacks and producer market strategies. Extreme price movements and/or restricted availability of jet fuel may affect the profitability of the Company.

Item 1. Effects of change in fuel prices on value of hedging instruments at year-end 2018, all other variables held constant

	Effect on equity		Effect on profit before tax	
USD '000	2018	2017	2018	2017
Increase in fuel prices by 10%	14,724	16,122	0	0
Decrease in fuel prices by 10%	(14,724)	(16,122)	0	0

To improve risk control relating to volatile fuel prices, the Company integrates hedging into its purchases of jet fuel using swaps and options. The Company's risk policy requires a hedge ratio between 40% and 60% of estimated usage 12 months forward and up to 20% of estimated usage 13-18 months forward.

Item 2. Average jet fuel hedge at the end of Q1 2018-2019 and at year-end 2016-2018

	Q1 2019	Q1 2018	2018	2017	2016
Hedge 12 months forward	47%	54%	50%	55%	57%
Hedge 13-18 months forward	3%	10%	6%	8%	5%

When fuel prices are high or rising airlines are conventionally more efficient in passing price increases on to their customers through fuel surcharges and other methods. However, global

[6] In 2018, 63% of revenues and 100% of EBITDA stemmed from Q2 and Q3 (2017:61% of revenue and 100% of EBITDA, 2016:64% of revenue and 98% of EBITDA).

industry trends demonstrate that this has not been the case in recent quarters due to fierce competition.

1.2.4 The airline industry is burdened with a high level of fixed costs making it vulnerable to fluctuations in passenger numbers and/or fare pricing

Airline operations tend to be affected by high level of fixed costs due to the nature of provided services, i.e. the operation of expensive equipment, obligations due to leasing and investments and clauses in collective wage agreements that place certain restraints on flight crew scheduling. Fixed costs include employees involved in flight operations, service and maintenance, aircraft ownership cost and overhead costs of administration and infrastructure systems.

The high proportion of fixed costs makes unit revenues by Available Seat Kilometres ("ASK") important. Fluctuations in revenues per ASK can therefore detrimentally affect the Company's profitability particularly in the event of demand shocks, e.g. due to external disruptions that might be outside the scope of the Company's control.

Cost awareness and flexibility, i.e. how quickly an airline can adapt to a changed external environment, are important factors in preserving profitability. Among strategies available are modifications of route networks (moving capacity from one route to another), temporarily reducing flights (grounding planes) or retiring them altogether.

1.2.5 The airline industry is vulnerable to labour disputes and strikes

The airline and tourism industries are inherently labour-intensive industries. Most of the Company's employees are unionised; and represented by several unions, each of which has its own collective agreement on salaries and benefits with the Group's companies. Each union's contract comes up for renegotiation every few years, bringing with it a risk that the parties will not reach an immediate agreement; resulting the jeopardy of production disruptions through strikes.

At the date of this Share Registration Document one of the Company's largest collective agreements, with The Icelandic Cabin Crew Association, has expired. Discussion are currently at a standstill and on 5 April 2019 the union decided to remit the negotiations to the State Conciliation and Mediation Officer (Icelandic: Ríkissáttasemjari) for resolution. The Company cannot state with any certainty when these negotiations will be completed or what the new contract will entail.

The Company's agreement with the Icelandic Airline Pilots Association and the Air Mechanics' Association collective agreements will expire on 31 December 2019.

Strikes can materially affect the Company's operations and financial results; a worst-case scenario being a complete halt in the operations of one or more of its subsidiaries for a prolonged period. Strikes in the aviation industry are particularly taxing for airlines due to proportionately high fixed costs.

In addition to relying on hired personnel, the Company relies on third parties to provide its customers with services on behalf of and in cooperation with it. Any inability of the relevant third parties to provide such services may impact the business.

1.2.6 The airline industry is vulnerable to inaccurate projections of capacity which can adversely affect yields and profitability

The capacity of airlines is a decisive factor in their profitability. Adjustments to capacity are based on industry as well as individual airline projections in line with expected developments in demand

for air travel and market growth. Projections can therefore differ based on the underlying assumptions employed in each case. If the Company's projections meaningfully deviate from actual demand it can lead to an imbalance in the Company's ASK and may, in case of overcapacity, have a negative impact on yields and profitability of scheduled and charter services. This is particularly true if overcapacity is concentrated amongst low-cost carriers.

Further, excess capacity due to lower than expected market growth on routes not served by the Company may lead to competitors transferring their excess capacity to markets and routes that are served by the Company. This could lead to increased competition and further price pressure on these routes which in turn may have an adverse effect on the Company's business, financial condition and results of operations.

1.2.7 The airline industry is vulnerable to disruptions and interruptions in flight schedules

Delays and cancelled flights occur for various reasons and impose increased costs on airlines. Possible reasons include computer faults, accidents, labour unrest, weather conditions, delays by service providers, congestion and unexpected maintenance. These events incur not only direct added costs for operations, and possible compensation payable to passengers7, but also indirect costs through damage to reputations and brand names which may take a long time to repair. Successful business turnover is contingent on successful third-party service providers and an undisrupted supply chain mechanism. This includes a range of crucial suppliers, including travel agents, air traffic control, ground services, maintenance support, IT service providers, etc. Interruptions due to any of these disruptions could seriously affect sales and the profitability of the Company.

1.2.8 The airline industry is subject to environmental laws and regulations aimed at limiting the allowed emission of greenhouse gas and trading schemes related to such allowances

Government regulations on environmental protection such as targets for carbon dioxide emissions are a growing issue for the airline industry. Moreover, the industry is subject to various local restrictions around airports such as to reduce noise and pollution. This can concern opening hours of airports, availability of slots and the usage of airspace. Congestion and environmental restrictions can for example lead to delays or increase the complexity of departure and approach manoeuvres which may act to reduce productivity and increase costs.

As of January 2012, all airline carriers flying into and out of the EU had to ensure compliance with the legal requirements set forth in Directive 2003/87/EC relating to greenhouse gas emissions. The Directive brought the airline industry into the Emission Trading Scheme ("EU ETS") whereby airlines must purchase emission units reflecting the physical carbon dioxide emission created by their consumption of jet fuel. As is the case with jet fuel prices, it is impossible to forecast the future price of emission allowances, but they might increase costs borne by the Group.

The Directive, which only applies to routes within the EU, places competitive disadvantages on airlines with a heavy European focus compared to non-European air carriers who operate a lower proportion of their flights within the EU. This is particularly the case for a company serving North-

[7] Under EU Regulation No. 261/2004 establishing common rules on compensation and assistance of passengers in the event of denied boarding and of cancellation or long delay of flights.

Atlantic routes with a hub-and-spoke model competing with direct flights as they are exempt from this environmental tax.

Emission permits are mainly purchased with spot and forward contracts, and carbon exposure is subject to the same scrutiny and risk management as jet fuel. Compared to the magnitude of fuel cost volatility the consequences of the EU ETS compliance are not as economically important, but still constitute a risk for Icelandair Group and can consequently adversely affect the Company's earnings.

The Group is exposed to carbon price risk. In terms of volume, carbon emission is a fixed proportion of the fuel consumption, but the price volatility of carbon has been greater although the consequential cash flow has been trivial compared to that of fuel costs. Last year the price of carbon units tripled. In 2018 the estimated volumes which need to be submitted in according to the Group´s compliance is 530,000 units of which 186,000 are covered by free allocation from the ETS. The volume for 2019 compliance is expected to be the same, leaving the exposure dependent on price developments. The end of year 2018 price was EUR 24,64/mt.

1.2.9 The airline industry is vulnerable to events outside their control such as terrorist attacks, natural disasters and pandemics

Terrorist attacks and armed conflicts can affect demand for airline travel. Similarly, airlines may be affected by outbreaks of easily communicable diseases, such as was the case with SARS (Severe Acute Respiratory Syndrome) in 2003, the bird flu pandemic in 2007 and 2008 and the Swine flu pandemic in 2009. Natural disasters such as large-scale floods, hurricanes or volcanic eruptions may cause disruptions to flight schedules that in extreme cases can lead to prolonged suspension of certain routes. Moreover, events such as mentioned above could result in loss or limitations of availability of insurance coverage or increase in insurance premia, additional costs relating to necessary increased security measures or sanctions or restrictions being placed on flights over conflict zones. All of the aforementioned could result in increased operational costs or longer or shorter-term fear of travelling that could depress the aviation and tourism industry thus adversely affecting the Company’s business.

1.2.10 The airline industry is reliant on airport and air traffic security which is upheld by levying costs on airlines that may not always be passed onto passengers

In the long-term airport security measures have increased internationally. Security surveillance has generally been stepped up, with any suspicious activity being treated with greater intensity than before8. Airline services have therefore occasionally been disrupted on temporary or long-term grounds and bear the risk of being similarly affected in the future.

Security measures are essentially paid by airlines through various airport, transit and landing fees. There is a risk of security measures being increased that might result in increased costs or hikes in fees payable to airports and air traffic authorities. Any inability to pass such increased costs onto customers could have an adverse effect on the Company's business, financial condition and results of operations.

[8] An incident at London’s Gatwick airport in December 2018, where numerous drones where used to disrupt air traffic during a very busy travel time, resulting in cancelation and delays of multiple flights, illustrates the impact that such security measures can have on the Group’s business.

1.2.11 The airline industry is subject to wide-ranging taxes, charges, license and aviation fees that may impact demand for air travel

The airline and tourism industries are subject to a plethora of fees and charges as well as an ever-changing tax environment, which can have a direct effect on ticket pricing and demand. Examples of airline specific costs are take-off, transit and landing fees, noise, navigation and emission charges and ticket tax (in addition to value added tax).

The Company is subject to risk regarding any added or new taxes, fees or charges to the extent these cannot be passed unto passengers.

1.2.12 The airline industry is exposed to a risk of significant losses from aviation accidents, including plane crashes, aircraft groundings or malfunctions and other disasters

As is the case with any airline operator the Company is exposed to significant potential loss through either crashes, malfunctions or other accidents. Costs may involve the repair or replacement of damaged or lost aircraft, consequent temporary or permanent loss of services and claims from passengers. Despite having insurance against this type of incident the Company cannot guarantee that insurance coverage and policy pay-outs would in every case fully cover the resulting losses. Moreover, should an aircraft from the Company, or of the same type as used by the Company be involved in an accident, it might result in a damaged reputation or the Company's aircraft not being seen as reliable, which in turn could decrease demand for the Company's services. Materialisation of any of these risks may have a material adverse effect on the Company's business, financial condition, results of operations and future prospects.

A fatal crash of a B737 MAX 8 operated by Ethiopian Airlines in March 2019, taking into consideration the crash's similarities with a crash involving another B737 MAX 8 operated by Lion Air in Indonesia in November 2018, led to the EU along with several countries banning the model, as well as the MAX 9 model of the same aircraft, from flying in their airspace. The ban ultimately led to a grounding of all planes of these models by regulators in the EU, USA, Canada and parts of Asia and subsequently by the Boeing Company itself.

At the date of this Prospectus six of Icelandair's fleet of 36 passenger aircraft are B737 MAX. The Airline is further scheduled to take delivery of three more B737 MAX aircraft in the first half of 2019. These remaining aircraft were originally scheduled for delivery this spring however, the Company has put in a request for their delivery to be postponed. On 19 April 2019 the FAA announced that a Joint Authorities Technical Review ("JATR") would take place, commencing on 29 April 2019, with participation from China, the European Aviation Safety Agency, Canada, Brazil, Australia, Japan, Indonesia, Singapore and the United Arab Emirates. The JATR is expected to last 90 days. However, this does not imply that the B737 MAX cannot become operational before the end of that time frame. Based on material and information from the Boeing Company, as well as knowledge on *inter alia* the vetting process needed to take place following Boeing's updating of the aircraft's software the Airline is currently working on the assumption that the B737 MAX aircraft will be operational on or before 16 July 2019 and has adjusted its 2019 flight schedule accordingly. This includes entering into leasing agreements regarding two 262-seat Boeing 767 aircraft and one 184-seat 757-200 aircraft. The B737 MAX seating capacity on the other hand ranges from 160 to 178. These larger aircraft will therefore act to curb the impact of the suspension on the Company's total seating capacity during the affected period (1 April to 16 July) which is expected to decrease by 1% as a result. One of the 767 aircraft entered the Route Network in mid-April and the second one

from early May. The 757-200 is scheduled to enter the Route Network in mid-May. All three aircraft will service the Airline until the end of September 2019. The routes that are affected by the grounding are in most cases destinations where more than one daily flight is available.

Furthermore, Icelandair has decided to cancel its flights to Cleveland in the US and Halifax in Canada this year. This is partly due to the suspension of the B737 MAX aircraft but also because of a decision to focus on meeting increased demand for flights to and from Iceland by moving supply from destinations that focus on travel between North America and Europe via Iceland.

Icelandair is vigilantly monitoring all developments and continues to work with the Boeing Company and aviation authorities in Iceland, Europe and the United States regarding the next steps. Investors are strongly advised that these assumptions are subject to uncertainty and can change without notice. Given these assumptions disruption to pilot training for the B737 MAX will be kept to a minimum. Some B737 MAX pilots have been temporarily moved to the leased aircraft and can be transferred back with a relatively low lead time, while others continue to train for the B737 MAX to expedite their readiness to fly these aircraft once they become operational. However, the Company is expecting lower utilisation of pilots only equipped to fly the B737 MAX for the time being. All cabin crew are trained to work on all models of the Company's fleet keeping disruptions on that front to a bare minimum.

Should the suspension of the B737 MAX extend beyond 15 July 2019 the Airline will, all other things constant, not have enough aircraft at its disposal to operate the Route Network's flight schedule as currently planned for after that period. In such a scenario the Airline may choose either to adjust the flight schedule further or seek to lease additional aircraft to continue to minimise the impact of the B737 MAX suspension.

The full operational and financial impact of the suspension of the B737 MAX aircraft continues to be uncertain at this time and will not be fully known until the grounding is lifted. The Company estimates the negative impact over the first quarter 2019 to have been USD 3 million. The Company reserves the right to claim compensation from the Boeing Company for the costs incurred by the B737 MAX grounding, including but not limited to the cost of the aforementioned lease agreements and has initiated discussions with Boeing relating thereto. The Company can moreover not assess the reputational impact that might result from the suspension.

The Company will update the market on this important issue through official announcements as and when more information becomes available.

1.2.13 The airline industry is exposed to risk of insurance not being adequate, becoming too expensive or hard to come by

The Company holds insurance for all Company assets and employees, including Directors and Officers' liability insurance, to reduce the risk of major economic damage. The insurance covers a range of risks, among them potential damage to the Company's aircraft fleet, spare parts and other technical equipment as well as liability exposure associated with airline operations.

If the Company's insurance coverage shows to be inadequate to cover losses the Company could be obliged to bear substantial costs if (i) its insurance policies do not cover a specific claim; (ii) the amounts insured under such policies are insufficient; or (iii) an insurer is not able to pay the insured amounts. In addition, the damage may not be limited to damages eligible for compensation but could include harm done to the Company's reputation.

Terrorist attacks, acts of sabotage and other incidents, especially if they were to be directed against air traffic, could result in insurance coverage for aviation risks becoming more expensive and/or certain risks becoming uninsurable.

The Company insures its aircraft fleet to the extent it deems reasonable and practical. This practice is in accordance with what other major airlines operating in the sector are doing as well as in accordance with applicable regulations regarding indemnity payments. The Company considers that its insurance coverage is reasonable to carry out its current commercial activities.

1.3 Risks Related to Icelandair Group's Operations

1.3.1 The Company is dependent on airport access and certain preferred time slots to optimise the execution of its chosen business model

The Company operates an international Route Network based on a hub-and-spoke model. This makes access to the right airports in its defined geographical market, including in its hub Keflavík Airport, vital to maintain and open up new gateways to large and competitive markets. At some airports, an air carrier needs landing and take-off authorisations (time slots) before being able to introduce new services or expand its existing services. If the Company is not able to secure and retain slots, it could be restrained from competing in valuable markets. Generally, access to airports is vital to minimise the likelihood of delays, which can negatively affect the Company's profitability.

1.3.2 The Company is exposed to risk regarding information technology and operating systems

The Company's operations are dependent on IT and other operating systems. Failure or disruption to IT or management systems, whether internal or external, could affect the Company's ability to carry out its business operations and services to its customers. Many factors that can cause such systems to fail are outside the Company's control. Icelandair Group makes every effort to minimise the risk of disruption with the aim of securing the Company's business continuity. Among measures that the Company has in place are documented procedures regarding access to information and operating systems, the back-up and storing of data, remote access via virtual private network clients and the disposal of confidential or otherwise sensitive material. Virus protection for all computers and servers are centrally managed, internet connectivity is secured by firewalls and web security gateways, and all services open for external usage are secured by an application firewall. Servers are hosted in specialised on-site server rooms equipped with cooling and fire-extinguishing systems, security and back-up power generators. Some operating systems are hosted with third-parties with expertise in the respective system. All critical servers and systems are monitored and routinely backed up. Data is subject to continuous monitoring with defined parameters for flagging deviations to ensure timely interventions in case of failure or break-down. Applications and data servers, as well as the network infrastructure, are hosted, operated, and maintained by Verne Global and Origo. Monitoring of daily incidents and work processes is done by Origo and Icelandair's Information Technology division.

A thorough systems risk assessment is performed annually on all key service and information systems. Further internal audits on inter alia access clearance levels and the implementation

of procedural rules, are performed. In Iceland these audits are performed to the standard of ISO 19011.

1.3.3 The Company's profitability and financial condition are affected by the success of its strategy and its ability to accurately forecast market trends

The markets on which the Company competes are subject to constant change, the direction and intensity of which depend on many factors. Thus, the Company's future status, market position, income and profit depend on its ability to design and implement a good strategy as well as on the conditions and trends of the market. This may include identifying and developing suitable opportunities, e.g. the Company's Route Network; negotiating favourable contract terms; acquiring properties or businesses and successfully integrate them into operations; arranging financing, when needed; and complying with legal regulations. There can be no assurance that the Company will succeed in adapting to market conditions, making correct choices for its business strategy or accurately forecast the financial impact of prevailing market trends. Failure to do any of the aforementioned may negatively impact the Company's profitability, operations and/or prospects.

1.3.4 The success of the Company's business strategy is dependent on the capabilities and know-how of key personnel

To secure necessary competence to carry out its business strategy the Company is reliant on key members of management and other employees. There is no assurance that these employees will stay with Icelandair Group. To reduce the risk of losing key employees some measures have been implemented, including a bonus scheme, which amongst other things offers an incentive-based salary for management based on the financial results of the Company. For further discussion on the bonus scheme reference is made to Chapter 8.3.1 *Terms of employment of the Executive Committee* in this Share Registration Document.

Furthermore, the Company actively manages its information systems to keep know-how within the Company. Employment contracts with certain key employees contain non-compete clauses, in effect ranging from 12-24 months after their resignation/redundancy.

1.3.5 The Company is exposed to general market risk

The Company is exposed to general market risk, i.e. fluctuations in market prices such as fuel prices, exchange rates, interest rates and carbon emission prices can materially impact the Company's profitability. The Company aims to reduce any such risk as much as possible by issuing and maintaining a policy of financial risk management and operating a risk management committee to that end. The policy identifies various methods and sets limits to their use within its framework, e.g. the way that market price fluctuations can also be controlled through surcharges, counterparty risk shifting, economizing, production supply and hedging. Each subsidiary is expected to use the abovementioned tools to reduce market risk exposure.

1.3.6 The Company is exposed to foreign currency risk

The Company's functional currency is U.S. dollars. The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in other currencies. The Company seeks to reduce its foreign exchange exposure arising from transactions in various currencies through internal foreign exchange trading. Any residual mismatch is dealt with by trading spot and forwards with external parties. The largest mismatch is in ISK where cash inflows fall short

of outflows due to various net cost related items such as salaries and salaries related costs. This shortage is financed by a surplus of foreign currencies, most importantly EUR and Scandinavian currencies. The Company follows a policy of hedging 50-80% of a rolling 9-12-month currency exposure with spot, forward contracts and options. In addition to the cash flow, risk exposure of this kind affects the Balance Sheet. The Company's Risk Committee monitors the net currency mismatch monthly and mitigates the exposure through short-term management of assets, loans and liabilities within the scope of the cash flow objectives.

Item 3. The Group's exposure to currency risk in its major currencies at at 31 December 2018

USD '000	ISK	EUR	GBP	DKK	SEK	CAD
Receivables / payables, net	69,378	(2,687)	(5.150)	(778)	(178)	79
Cash and cash equivalents	10,263	15,604	5.376	1,768	6,118	3,340
Secured bank loans	(35,987)	(61,554)	0	0	0	0
Forward exchange contracts	89,256	(32,052)	(8.926)	(6,899)	(12,867)	(23,500)
Net statement of financial position exposure	132,910	(80,689)	(8.700)	(5,909)	(6,927)	(20,081)
Next 12 months forecast sales	274,856	243,087	40.939	25,670	26,894	79,162
Next 12 months forecast purchases	618,089	(161,891)	(27.405)	(10,430)	(3,472)	(15,739)
Capex thereof	(25,066)	(628)	(1,146)			
Net 12 months currency exposure	(210,323)	507	4.834	9,331	16,495	43,342

A 10% strengthening of the USD against the following currencies at 31 December 2018 would have increased (decreased) post tax equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Item 4. Sensitivity analysis, assuming 10% appreciation of USD as at 31 December 2018

	Directly in Equity	Profit or loss	Total effect on Equity
ISK	(7,140)	(3,492)	(10,633)
EUR	2,564	3,891	6,455
GBP	714	(18)	696
DKK	552	(79)	473
SEK	1,029	(475)	554
CAD	1,880	(274)	1,606

A 10% weakening of the USD against the above would have the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

1.3.7 The Company is exposed to liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it

will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company aims to maintain the level of its cash and cash equivalents and other highly marketable debt instruments at an amount corresponding to three months' operating cost on average, whereof 30% can be in the form of unused lines of credit.

The Company monitors its cash flow requirements by using a rolling forecast and the liquidity management is based on projected cash flow in different currencies.

Item 5. Contractual maturities of financial liabilities at 31 December 2018

USD '000	Carrying amount	Contractual cash flows	Within 12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Unsecured bank loans	212,708	237,997	237,997	0	0	0
Secured loans	203,093	231,723	60,826	17,656	66,536	86,705
Payables & prepayments	237,320	237,320	222,766	925	8,872	4,757
	653,121	**707,040**	**521,589**	**18,581**	**75,408**	**91,462**
Derivative financial liabilities						
Commodity derivatives	33,491	34,139	31,784	2,355	0	0
Forward exchange contracts	3,946	2,518	2,518	0	0	0
– Outflow	(87,765)	(89,363)	(89,363)	0	0	0
– Inflow	91,712	91,882	91,882	0	0	0
Interest rate swaps	(832)	(858)	(648)	(24)	(177)	(9)
	36,606	**35,799**	**33,654**	**2,331**	**(177)**	**(9)**

1.3.8 The Company is exposed to credit risk

The Company is exposed to credit risk, i.e. the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

Credit risk is linked to trade receivables, investment in debt securities, bank deposits and agreements with financial institutions related to hedging. The relative spread of trade receivables across counterparties is also crucial for credit risk exposure. The risk involved is directly related to the fulfilment of outstanding obligations by the Company's counterparties. The Company is aware of potential losses relating to credit risk exposure and chooses its counterparties based on business experience and acceptable credit ratings.

The Company establishes an allowance for impairment that represents the estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Item 6. Maximum exposure to credit risk for trade and receivables at year-end 2018

USD '000	**2018**	**2017**	**2016**
Credit cards	40,744	55,219	51,609
Trade receivables	28,499	45,753	32,456
	69,243	100,972	84,065
Prepayments on aircraft purchases	4,249	52,521	0
Other receivables	44,806	32,534	34,655
	118,298	**186,027**	**118,720**

1.3.9 The Company is exposed to contractual risk regarding loan covenants

The Company is contractually bound to honour various covenants in loan and leasing agreements as well as under the terms and conditions of issued bonds. Should the Company become unable to fulfil the relevant covenants, or for some reason discontinue to do so, the lessors or lenders may become entitled to rescind or accelerate these agreements, which might have financial consequences for the Company.

On 8 January 2019 a meeting of bondholders representing 97.25% of the outstanding amount in the Company's ICEAIR 15 1 bond class agreed to grant a waiver from acceleration due to a breach of financial covenants. The following amendments and restatements of the bonds' terms and conditions were agreed:

New clauses:

1. The Issuer shall no later than 15 January 2019[9], redeem one third (1/3) of the outstanding bonds at a price equal to 101.00% of the Nominal amount.
2. The Issuer may redeem all or only some of the outstanding bonds, during the period from 1 February 2019 to (and including) 31 December 2019, with the condition that 40% of the Bonds shall remain outstanding after such redemption, at a price equal to; 101.50%, of the Nominal amount together with accrued but unpaid interest, if exercised during the period from 1 February 2019 to (and including) 31 March 2019. If redemption is exercised during the period from 1 April 2019 to (and including) 31 December 2019 it shall be made at a price equal to 102.00% of the Nominal amount together with accrued but unpaid interest. The Issuer is authorized to redeem the bonds in full in accordance with the bonds' terms & conditions after 31.12.2019.
3. Each bondholder shall between 30 June 2019 to (and including) 15 July 2019, have the right to request that all, or only some, of the bonds shall be repurchased at a price equal to 102.50%, together with accrued but unpaid interest. The bonds shall be repurchased by the Issuer no later than 31 July 2019.

Amendments[10]:

4. *Breach of covenants*: The Issue may be declared to be in default upon the occurrence of a breach of any of the financial or Issue specific covenants as set out in the Terms and Conditions of the Issue. The Issuer is granted a waiver from acceleration due to a

[9] The redemption took place on 15 January as agreed. The total amount paid by the Company to the bondholders of the two bond classes totaled USD 73.2 million, whereof USD 71.9 million was principal payments and the rest was accrued interest.
[10] Text reflects the current and amended wording of the relevant terms and conditions.

breach of financial covenants from 30 September 2018 to (and including) 30 June 2019, regarding debt ratio and debt ratio II.

5. *Cash and cash equivalent*: The Company's cash and cash equivalent position at the end of each quarter must cover all debt service payments falling due in the next six months thereafter. The aforementioned notwithstanding, cash and cash equivalents of the Issuer must never be less than USD 100,000,000 in the period from 30 September 2018 to (and including) 30 June 2019. After that, the Company's cash and cash equivalent position shall never be less than USD 50,000,000.
6. *Dividend payments:* The Issuer is not authorized to pay dividends until and including 30 June 2019. After that the Issuer is authorized to pay dividends provided that the Issuer is current on all issued debt and will remain so for the foreseeable future. The Issuer declares that the Issuer will not pay dividends, neither in cash nor by other means, unless the Issuer is in full compliance with the financial covenants stipulated under the Bonds and will remain so, according to the Issuer's projections, for a period of twelve months immediately following the dividend payment.
7. *Information retrieval:* The Issuer and Bond Agents may at any time obtain information about the registered bondholders from Nasdaq Iceland.

All proposals were accepted unanimously.

On 21 December 2018 the Company announced that a quorum of bondholders of the outstanding amount in the Company's USD 190 million senior unsecured bond class, carrying ISIN NO0010776982, had voted in favour of a waiver to the bonds' terms and conditions. The waiver and amendments to terms are in all material aspects identical to the ones concerning the USD 23.66 million ICEAIR 15 1 bond class as described above.

Pursuant to clause number 2 above the Company redeemed all outstanding bonds in the ICEAIR 15 1 class on 28 March 2019. The total nominal outstanding amount of the remaining bond class on 31 March 2019 was USD 126 million plus applicable accrued interest. The Company expects to redeem the bonds in full before the end of the second quarter 2019.

1.3.10 The Company is exposed to execution risk regarding non-core subsidiaries held for sale

At the date of this Share Registration Document the Company has initated or plans to initiate a sales process for its non-aviation businesses. Transactions have not been concluded but are expected to be finalised before year-end 2019. Should, for any reason, one or both subsidiaries fail to be sold the Company's financial position would be affected as no proceeds would be collected and it would need to keep these businessed on its books. The Company has not made any detailed analysis as to the effects that non-completion would cause.

1.4 Risks Related to Legal and Regulatory Framework

1.4.1 Aviation regulations

Air transportation is subject to intensive regulation. AOCs for Icelandic carriers are granted by the Icelandic Transport Authority ("ITA") and have been issued to the relevant subsidiaries of the Company, authorising them to conduct their airline operations. Among general requirements to obtain an AOC are sufficiently experienced personnel; having aircraft suitable

for the type of operations requested; a quality assurance system to ensure that all regulations are followed and proof that the operator has sufficient funds to run the operation.

There is no guarantee that the Company will be issued such certificates in the future. Occasionally, the Federal Aviation Administration ("FAA") and its European counterparts issue directives and other regulations relating to the maintenance of aircraft that may result in significant costs for the Company. There is no guarantee that the Company will be compensated for this through higher fare prices, making it likely that the Company would be adversely affected.

The Company's operating certificate is subject to air services agreements between Iceland and respective third countries. These agreements are periodically subject to renegotiation. Changes in aviation policies of either party to such an agreement could result in their termination and adversely affect the Company's operations. Individual airline regulators, including the regulator in Iceland, may impose restrictions and requirements that would impact the Company's profitability.

The European Union limits non-EU ownership of the airlines of its member states to 49% and they must be headquartered in an EU country. Although not a member of the EU, this rule applies to Iceland and Icelandic airlines through the country's affiliation with the European Economic Area ("EEA").

1.4.2 Securities Regulation

The Company's Shares are traded on Nasdaq Iceland's regulated market. The Company further has a bond class that is traded on the regulated market in Sweden. The Company, and its issued securities, is therefore subject to relevant securities regulations, most importantly the Icelandic Securities Transactions Act No. 108/2007 and the Swedish Financial Instruments Trading Act No. 1991:980 and subsequent regulations as well as Nasdaq's Rules for Issuers. Violation of these provisions, whether intended or unintentional, may have a financial impact on the Company. Serious breaches may result in penalties and Nasdaq Iceland halting trading in the Company's Shares.

1.4.3 Litigation

Given the Company's size and the scope of its operations, it can easily find itself involved in some form of litigation at any given time which might adversely affect its financial position. At the time of the publishing of this Share Registration Document, the Company is involved in few legal disputes, none of which is of financial significance.

The Icelandic Competition Authority (ICA) is investigating Icelandair's alleged predatory pricing in 2012–13 which could be considered as a breach of Article 11 of the Icelandic Competition Act. The Company's management is of the opinion that Icelandair's pricing in 2012–13 was fully compliant with the Competition Act.

At the date of this Share Registration Document the Company is not party to any other governmental, legal or arbitrational proceedings. Further, the Company is not aware of any other such proceedings being pending or threatened during the period covering the previous 12 months which may have or have in the recent past had significant effect on the Company and/or the Company's financial position or profitability.

1.4.4 Data protection

The Company collects and retains personal information received from customers and is therefore subject to the EUs General Data Protection Regulation (EU) 2016/679 ("GDPR") aimed at protecting personal data held by businesses and other organizations. The GDPR, while not an entirely new framework, adds some new requirements that companies need to comply with. These requirements include but are not limited to implementing certain policies and processes, developing an effective internal data protection management system and appointing a data protection officer. Should companies be in found non-compliant to the GDPR regulators can, determined by the level of the infringement, levy fines of up to 4% of the company's annual worldwide turnover.

The Executive Committee of Icelandair Group considers the Company to be GDPR compliant.

02 NOTICE TO INVESTORS

This Share Registration Document forms a part of Icelandair Group's Prospectus, dated 7 May 2019, which has been prepared in connection with an application for the admittance of 625,000,000 new Shares (the "New Shares") in Icelandair Group to trading on the regulated market of the Nasdaq Iceland Stock Exchange, as described herein.

For the definitions of terms used throughout this Prospectus, see Chapter 2.2 *Definitions and References* of this Share Registration Document.

The Prospectus has been prepared to provide information about Icelandair Group, its business operations and financial standing. The level of disclosure complies with Annexes I, III and XXII to EC Commission Regulation EC/809/2004 that implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 ("The Prospectus Directive") and amendments thereto, including the 2010 PD Amending Directive regarding information contained in prospectuses. The Prospectus Directive has been implemented into Icelandic law through the Icelandic Securities Transactions Act No. 108/2007 and derived secondary legislation. The Prospectus further complies with the Nasdaq Iceland Issuer rules.

The Prospectus is published electronically at the Company's website, https://www.icelandairgroup.is/investors/reports-and-presentations/prospectus/ and consists of three separate documents; a Summary, a Securities Note and this Share Registration Document, all dated 7 May 2019. Printed copies can be ordered, free of charge, through iris@icelandairgroup.is for up to twelve months post publication. This Prospectus has been prepared solely in the English language, however an Icelandic translation of the Summary has been prepared and made available to investors. The Icelandic language version of the Summary is an unofficial translation of the English original and in case of any discrepancies the English version shall prevail.

The Financial Supervisory Authority-Iceland ("FME") has scrutinised and approved the Prospectus on 7 May 2019. The approval and registration of the FME does not imply that the FME has controlled the accuracy or completeness of the included information and gives no guarantee to that effect. The approval by the FME only relates to the information included in accordance with the pre-defined disclosure requirements of the aforementioned Annexes.

The distribution of this Prospectus in certain jurisdictions may be restricted by law. This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase any of the Shares in any jurisdiction in which that would be considered unlawful. Accordingly, neither this Prospectus nor any advertisement or any other material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. The Company requires persons in possession of this Prospectus to inform and observe themselves about any such restrictions and behave accordingly.

This Prospectus shall be governed by and interpreted in accordance with Icelandic law. The courts of Iceland, with Reykjavík as legal venue, shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Prospectus.

All sections of the Prospectus should be read in conjunction and as a whole. Special attention is drawn to the importance of investors reading and fully understanding the associated risks of investing in the Shares by familiarising themselves with the contents of Chapter 1 *Risk Factors*

in both the Securities Note and Share Registration Document. In making an investment decision, prospective investors must rely on their own examination, and analysis of Icelandair Group including the merits and risks involved. Investors are reminded that shares are risky investments that are based on expectations, not promises. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a subscription to the Shares. Neither the Company as the Issuer nor Íslandsbanki hf. ("Íslandsbanki") as the Listing Advisor should be seen as making any promise of positive future operational results or an acceptable return on investment. Íslandsbanki is not under any obligation to evaluate whether purchase of the Shares is appropriate for investors. Investors participating in such transactions do not enjoy protection in accordance with Article 16 of the Securities Transactions Act.

Information in the Prospectus is based on circumstances and facts on the date it is signed, unless otherwise noticed. The Issuer has furnished the information in this Prospectus to provide a presentation of Icelandair Group and to inform prospective investors about the Company and the Shares. Unless otherwise explicitly stated, the source of information included in this Prospectus is the Issuer. If significant new information, material mistakes or inaccuracy relating to information in the Prospectus, which could affect the assessment of the Shares, is discovered between the time the Prospectus is approved, as per Article 52 of the Securities Transactions Act, and the time when the Shares are admitted to trading, a supplement to the Prospectus shall be prepared containing the changes and/or new information in question in accordance with Article 46 of said Act. The supplement shall be approved within seven working days and published in the same manner as the original Prospectus. The Summary and any translation thereof shall also be supplemented as relevant. Investors who have agreed to purchase or subscribe to the Shares prior to the supplement being published shall have the right to withdraw their subscriptions for at least two working days following the publication of the supplement.

Only the Company is entitled to provide information about conditions described in this Share Registration Document. Information supplied by any other person is of no relevance in relation to the Share Registration Document and must not be relied upon. Investors are encouraged to stay informed on all material either disclosed by or relevant to the Issuer.

This Share Registration Document is neither an offer to sell nor a request to buy Shares issued by the Issuer. Neither the delivery of the Share Registration Document nor any sale made hereunder shall under any circumstances be taken to mean that there has been no change in the Company's affairs or that the information set forth in the Share Registration Document is correct as of any date after the date hereof.

Unless otherwise stated, references to any laws, acts or regulations are references to acts passed by the Icelandic parliament and regulations issued by Icelandic governmental agencies unless otherwise clear from the context.

2.1 Potential Conflict of Interest

Investors are advised of the following interests Íslandsbanki, as the Listing Advisor has regarding Icelandair Group.

Íslandsbanki was retained by the Company to oversee the process of getting the New Shares admitted to trading on Nasdaq Iceland's regulated market. Íslandsbanki accepts a fee for their

services to the Company, which inter alia include the compilation of this Prospectus, dated 7 May 2019.

Íslandsbanki's Corporate Banking division is a lender to Icelandair Group and provides general banking services to the Company. Íslandsbanki's FX Sales division provides foreign exchange trading services to Icelandair Group. Íslandsbanki holds 22,449,752 shares in the Issuer. Íslandssjóðir, an Icelandic fund management company, fully owned by Íslandsbanki, holds 34,205,192 shares in the Issuer.

In accordance with Article 8 of the Securities Transactions Act No. 108/2007, Íslandsbanki has in place provisions for the treatment of potential conflicts of interest. Investors are advised to acquaint themselves with these provision on the bank's website, https://islandsbanki-res.cloudinary.com/image/upload/v1/documents/Utdrattur_ur_stefnu_Islandsbanka_hf_um_hagsmunaarekstra.pdf (Icelandic only).

Investors are advised to further acquaint themselves of the listed potential conflicts involving members of the Board of Directors of Icelandair Group. See Chapter 8.3.2 *Statements and potential conflicts of interest* in this Share Registration Document for details.

2.2 Definitions and References

In this Share Registration Document, the below shall be construed to have the following meaning unless otherwise explicitly stated or clear from context.

Airline	is a reference to Icelandair ehf., ID No. 631205-1780, Reykjavíkurflugvelli, 101 Reykjavík, Iceland
ACMI	is a reference to a type of aircraft lease agreement that includes crew, maintenance and insurance, commonly also referred to as a wetlease
AOC	is a reference to Air Operator's Certificate
Articles, the	is a reference to Icelandair Group's Articles of Association, dated 24 April 2019
ASK	is a reference to Available Seat Kilometres
B737 MAX	is a reference to aircraft models Boeing 737 MAX8 and MAX9
Base Fleet, the	Is a reference to the passenger aircraft fleet owned or leased by the Company less the three aircraft specifically leased to minimise the impact of the suspension of the B737 MAX aircraft models
Board, the	is a reference to the Board of Directors of Icelandair Group hf.
Bond Classes	is a reference to the Company's two bond classes bearing ISIN numbers IS0000025427 and NO0010776982 respectively
CAGR	is a reference to Compounded Annual Growth Rate
CAPEX	is a reference to Capital Expenditure
Company, the, Issuer, the and Icelandair	is a reference to Icelandair Group
CSR	is a reference to Corporate Social Responsibility

Debt ratio	is a reference to the debt ratio agreed as a covenant in the Company's bond classes according to which the ratio of Interest-Bearing Debt to EBITDA for the Reference Period shall not exceed 3.5x
Debt ratio II	is a reference to the debt ratio agreed as a covenant in the Company's bond classes according to which the ratio of Interest-Bearing Debt and liabilities relating to aircraft lease to EBITDAR for the Reference Period shall not exceed 4.0x
DKK	is a reference to Danish Krona, the legal tender of Denmark
EASA	Is a reference to European Aviation Safety Agency
EBIT	is a reference to Earnings Before Interest and Tax
EBITDA	is a reference to Earnings Before Interest, Taxes, Depreciation and Amortization
EBITDAR	is a reference to Earnings Before Interest, Taxes, Depriciation, Amortization and rent cost
EEA	is a reference to the European Ecomic Area, whereby Iceland, Norway and Liechtenstein gain access to the EU's single market on the basis that they adopt most EU legislation concerning the single market
EUR	is a reference to the Euro, the legal tender of the EU
EUA	is a reference to European Emission Allowances
Executive Committee, the	is a reference to the individuals detailed in Chapter 8.3 *Executive Committee* in this Share Registration Document
FAA	is a reference to the Federal Aviation Administration, a United States' government agency tasked with managing the country's aerospace and national airport system
FTK	is a reference to Freight Tonne Kilometres
Flown cycles	is a reference to the number of take-offs and landings of an aircraft's engine
GDP	is a reference to Gross Domestic Product
GDPR	is a reference to the European Union's General Data Protection Regulation
ICA and the Icelandic Competition Authority	is a reference to the Icelandic Competition Authority, ID No. 410705-0600, Borgartúni 26, 105 Reykjavík, Iceland
IFRS	is a reference to International Financial Reporting Standards as approved by the European Union according to Directive 1606/2002
ISAVIA	is a reference to ISAVIA ohf., ID No. 550210-0370, Reykjavíkurflugvelli, 101 Reykjavík, Iceland. ISAVIA handles the

	operation and development of all airports in Iceland and, furthermore, manages air traffic in the Icelandic control area.
ISK	is a reference to Icelandic Krona, the legal tender of Iceland
ISO	is a reference to the International Organization for Standardization which is an independent, non-governmental international organization that develops and publishes international standards
ITA	is a reference to the Icelandic Transport Authority, ID No. 540513-1040, Ármúli 2, 108 Reykjavík, Iceland
JATR	is a reference to the Joint Authorities Technical Review commencing on 29 April 2019, with participation from Aviation Authorities in the U.S.A., China, the European Union, Canada, Brazil, Australia, Japan, Indonesia, Singapore and the United Arab Emirates. The group will conduct a comprehensive review of the certification of the B737 MAX aircraft's automated flight control system.
Jet fuel	is a reference to the type of fuel used to power aircraft
JOLCO	is a reference to Japanese Operating Leases with Call Option
KPMG	is a reference to auditing firm KPMG ehf., ID No. 590975-0449, Borgartún 27, 105 Reykjavík
Listing Advisor, the	is a reference to Íslandsbanki hf., ID No. 491008-0160, Hagasmári 3, 201 Kópavogur, Iceland
Load Factor	is a reference to capacity utilization
Nasdaq Iceland and the Nasdaq Iceland Stock Exchange	is a reference to the Nasdaq Iceland ID No. 681298-2829, Laugavegur 182, 105 Reykjavik, which operates Iceland's only regulated market
Mt	is a reference to metric tonnes
New Shares, the	is a reference to 625,000,000 new Shares in Icelandair Group being admitted to trading
NIBD	is a reference to Net Interest-Bearing Debt *i.e.* interest-bearing liabilities minus cash and cash equivalents
NIBD/EBITDA	is a reference to the ratio between Net Interest-Bearing Debt and Earnings Before Interest, Taxes, Depreciation and Amortization at a given point in time
Prospectus, the	is a reference to Icelandair Group's Prospectus, dated 7 May 2019
Q1	is a reference to the first quarter of any fiscal year
RPK	is a reference to revenue passenger kilometres
Securities Note, the	is a reference to Icelandair Group's Securities Note, dated 7 May 2019

Share Registration Document, the	is a reference to Icelandair Group's Share Registration Document dated 7 May 2019
USD	is a reference to United States dollar, the legal tender of the United States of America
Useful life	is a reference to the period during which an aircraft is expected to be usable for the purpose it was acquired
VIP	is an abbreviation of the term Very Important Person, in this case clients of Loftleiðir Icelandic that prefer or need special treatment
Yield	is a reference to the average fare per passenger per kilometre
YoY	is a reference to Year on Year, *i.e.* a comparison from a point in time of one year to the same point in time in the following year

2.3 The Company's Statement

We, the undersigned, the Chairman of the Board of Directors and the President and Chief Executive Officer of Icelandair Group hf., ID No. 631205-1780, registered office at Reykjavíkurflugvöllur, 101 Reykjavík, Iceland, hereby declare, for and on behalf of the Company, that having taken all reasonable care to ensure that such is the case, the information contained in this Share Registration Document dated 7 May 2019 is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 7 May 2019

For and on behalf of Icelandair Group

Úlfar Steindórsson

Chairman of the Board of Directors

and

Bogi Nils Bogason

President and Chief Executive Officer

2.4 Statutory Auditor's statement

KPMG ehf., ID. No. 590975-0449, Borgartún 27, Reykjavík, Iceland ("KPMG"), has audited the annual consolidated financial statements of Icelandair Group for the fiscal years 2016, 2017 and 2018. KPMG hereby confirms that the consolidated financial statements of the Company

for the aforementioned years give a true and fair view of the financial position of Icelandair Group for the respective years ended 31 December and of its financial performance and its cash flow for the years then ended in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the EU. KPMG confirms that the information reproduced in this Share Registration Document, dated 7 May 2019, from the abovementioned consolidated financial statements of Icelandair Group is consistent with their respective originals. The interim condensed consolidated financial statements for the three-month period ended 31 March 2019, along with their comparative figures for the same period of 2018, are management accounts and are neither audited nor reviewed by KPMG.

Reykjavík 7 May 2019

On behalf of KPMG

Alexander G. Eðvarðsson Auður Þórisdóttir Hjördís Ýr Ólafsdóttir

Certified public accountants and members of The Institute of State Authorized Public Accountants in Iceland

2.5 The Listing Advisor

Íslandsbanki has acted in the capacity of Listing Advisor in relation to the New Shares in Icelandair Group being admitted to trading on the regulated market of Nasdaq Iceland. Íslandsbanki has prepared the Prospectus in close co-operation with the Company's Executive Committee and Board of Directors. The Prospectus is based on information provided by the Company, including audited consolidated financial statements.

Íslandsbanki has not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is assumed by Íslandsbanki as to the accuracy or completeness of the information contained in this document or any other information provided by the Company in connection with the admittance of the Shares to trading.

2.6 Documents on Display

For a period of twelve months from the date of issue of this Share Registration Document, the following documents are available for electronic viewing on the Company's corporate website https://www.icelandairgroup.is/investors/:

- The Summary, the Securities Note and the Share Registration Document all dated 7 May 2019
- The Company's Articles of Association dated 24 April 2019.
- The Company's condensed consolidated interim financial statements in respect of the period from 1 January – 31 March 2019
- The Company's condensed consolidated interim financial statements in respect of the period from 1 January – 31 March 2018
- The Company's audited consolidated financial statements in respect of the year ended 31 December 2018.
- The Company's audited consolidated financial statements in respect of the year ended 31 December 2017.
- The Company's audited consolidated financial statements in respect of the year ended 31 December 2016.

2.7 Third Party Information

The Issuer confirms that where third party information has been used in the Share Registration Document, the information has been accurately reproduced and the source of such information has been identified. As far as the Issuer is aware and able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

03 SELECTED FINANCIAL INFORMATION

Below are selected consolidated financial information for the Company. The information from the following tables have been derived from the Company's consolidated financial statements for the fiscal years 2016, 2017 and 2018 as well as the condensed consolidated interim financial statements for the three months ended 31 March 2019 and 2018 respectively. All the financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and correspond with the interpretations of the International Accounting Standards Board.

The Company's full consolidated financial statements for the abovementioned fiscal years have been audited by KPMG ehf. and can be found in Chapter 10 *Consolidated Financial Statements* in this Share Registration Document. The condensed consolidated interim financial statements ("the Interim Accounts") for the three months ended 31 March 2019 and 2018 respectively are management accounts that have neither been audited nor reviewed. No other information contained in this chapter or other chapters of this Share Registration Document have been audited.

Detailed information regarding items in the consolidated statements of profit or loss, consolidated statements of cash flows and consolidated statements of financial position are accessible in the policies and explanatory notes in the relevant consolidated financial statements.

3.1 Consolidated statements of profit or loss

Item 7. Consolidated statements of profit or loss

	2019	2018	2018	2017 Restated[11]	2016
USD '000	01.01.-31.03. *Unaudited*	01.01.-31.03. *Unaudited*	01.01.-31.12. *Audited*	01.01.-31.12. *Audited*	01.01.-31.12. *Audited*
Operating income	248,602	267,619	1,510,518	1,417,987	1,285,574
Operating expenses	263,270	(285,830)	(1,434,039)	(1,247,911)	(1,065,729)
EBITDA	**(14,668)**	**(18,211)**	**76,479**	**170,076**	**219,845**
Depreciation and amortisation	(44,911)	(28,002)	(133,447)	(120,431)	(101,408)
Operating (loss) profit (EBIT)	**(59,579)**	**(46,213)**	**(56,968)**	**49,645**	**118,437**
Finance income	432	5,601	8,578	14,083	6,414
Finance costs	(9,726)	(4,193)	(21,172)	(15,678)	(5,697)
Net finance (costs) income	**(9,294)**	**1,408**	**(12,594)**	**(1,595)**	**717**
Share of profit of associates, net of tax	405	1,266	1,752	592	957
(Loss) profit before tax	**(68,468)**	**(43,539)**	**(67,810)**	**48,642**	**120,111**
Income tax	13,355	9,011	12,240	(11,104)	(31,043)
(Loss) profit for the period	**(55,113)**	**(34,528)**	**(55,570)**	**37,538**	**89,068**
(Loss) earnings in US cent per share	*(1.15)*	*(0.72)*	*(1.16)*	*0.75*	*1.79*

[11] With the implementation of the new IFRS 15 revenue recognition standard, baggage fees, in-flight sales, excess leg room and wi-fi that are sold as a separate component are now included in passenger revenue. These items were previously included in either cargo, mail or sale at airports and hotels. Amounts from 2017 have been restated accordingly. Amounts from 2016 have not been restated in this respect.

3.2 Consolidated statements of financial position

Item 8. Consolidated statement of financial position

USD '000	2019 31.03. *Unaudited*	2018 31.03. *Unaudited*	2018 31.12. *Audited*	2017 Restated 31.12. *Audited*	2016 31.12. *Audited*
Assets					
Total non-current assets	1,068,728	1,035,805	894,578	959,786	874,977
Total current assets	813,527	551,357	569,544	464,056	417,516
Total assets	**1,882,255**	**1,587,162**	**1,464,122**	**1,423,842**	**1,292,493**
Equity					
Total equity	**425,805**	**554,861**	**471,379**	**596,545**	**568,213**
Liabilities					
Total non-current liabilities	402,451	350,392	194,935	358,378	268,190
Total current liabilities	1,053,999	681,909	797,808	468,919	456,090
Total liabilities	**1,456,450**	**1,032,301**	**992,743**	**827,297**	**724,280**
Total equity and liabilities	**1,882,255**	**1,587,162**	**1,464,122**	**1,423,842**	**1,292,493**

3.3 Consolidated statements of cash flows

Item 9. Consolidated statements of cash flows

USD '000	2019 01.01.- 31.03. *Unaudited*	2018 01.01.- 31.03. *Unaudited*	2018 01.01.- 31.12. *Audited*	2017 Restated 01.01.- 31.12. *Audited*	2016 01.01.- 31.12. *Audited*
Net cash from operating activities	72,941	67,115	61,553	205,603	209,024
Net cash used in investing activities	(53,592)	(129,159)	(129,933)	(228,419)	(291,759)
Net cash from financing activities	(28,728)	30,802	149,336	14,554	113,643
Increase (decrease) in cash and cash equivalents	**(9,379)**	**(31,242)**	**80,956**	**(8,262)**	**30,908**
Effect of exchange rate fluctuations on cash held	**(1,061)**	**1,308**	**(2,687)**	**2,564**	**1,395**
Cash and cash equivalents at beginning of the period	299,460	221,191	221,191	226,889	194,586
Cash and cash equivalents at end of the period	289,020	191,257	299,460	221,191	226,889

3.4 Key ratios

Item 10. Key ratios

	2019 31.03. *Unaudited*	2018 31.03. *Unaudited*	2018 31.12. *Audited*	2017 Restated 31.12. *Audited*	2016 31.12. *Audited*
(Loss) earnings per share (US Cent)	(1.15)	(0.72)	(1.16)	0.75	1.79
Equity ratio	23%[12]	35%	32%	42%	44%
Current ratio	0.77	0.71	0.71	0.99	0.92
CAPEX (USD'000)	173,109	138,878	335,991	166,131	243,397
Transport revenue as % of total revenues	67%	65%	73%	74%	74%
EBITDAR ratio	-5.9%	-2,4%	8.4%	14.7%	19.8%
EBITDA ratio	-24.0%	-17.3%	5.1%	12.0%	17.1%

[12]The Company is committed to selling its hotel operations and is currently in final negotiations with a buyer. If the hotel company was excluded from the Company's financials, as is expected,Icelandair Group's equity ratio at 31 March 2019 would be 26%.

04 INFORMATION ABOUT THE COMPANY

4.1 The Issuer

The legal and commercial name of the Company is Icelandair Group hf. The Company is registered at the Register of Enterprises in Iceland, with the ID No. 631205-1780. Icelandair Group's domicile and headquarters are at Reykjavíkurflugvöllur, 101 Reykjavík, Iceland.

Icelandair Group hf. is a public limited company incorporated in Iceland operating pursuant to the Icelandic Act No. 2/1995 respecting Public Limited Companies. The Company is listed on Nasdaq Iceland's Main Market and is therefore subject to Icelandic Act No. 108/2007 respecting Securities Transactions. The Group's operations are further subject to the Icelandic Aviation Act No. 10/1998, Act No. 41/1949 respecting The Convention for the Unification of certain rules relating to international carriage by air, (commonly known as the "Warsaw Convention"), Act No. 95/2018 respecting Package Tours and Linked Travel Arrangements and Act No. 85/2007 respecting food and beverage services, accommodation establishments and entertainment[13]. Notice is made of the fact the above list is not exhaustive as the Company, as all other companies, is subject to several general bodies of law such as Act No. 90/2003 on Income Tax and Act No. 3/2006 on Annual Accounts.

Issuer:	Icelandair Group hf.
ID No:	631205-1780
LEI No:	549300UMI5MBLZSXGL15
Legal form:	Public limited company
Date of incorporation:	20 December 2005
Total shares outstanding:	5,437,660,653
Total share capital:	5,437,660,653 divided into shares of one ISK each
Ticker symbol at Nasdaq Iceland:	ICEAIR
ISIN number:	IS0000013464
Domicile:	Reykjavíkurflugvöllur, 101 Reykjavík, Iceland
Website:	www.icelandairgroup.is/investors/
Telephone:	+354 50 50 300

[13] The last two Acts will seize to concern the Group once the sale of it's subsidiaries, Icelandair Hotels and Iceland Travel will be finalized.

4.2 Brief history

Icelandair Group traces its roots to the year 1937 when one of its predecessors, Flugfélag Akureyrar, was founded. In 1943, the Company moved its headquarters to Reykjavík and changed its name to Flugfélag Íslands, which later assumed the international trade name Icelandair.

Another important milestone was passed in 1944, when three young Icelandic pilots, returning from flight training in Canada, founded Loftleidir, which later became known as Icelandic Airlines. Initially, both companies concentrated on Icelandic domestic air services. However, in 1945 Icelandair made its first international flight to Scotland and Denmark. Loftleidir began international operations in 1947, and its pioneering low-fare services across the North-Atlantic commenced in 1953.

In 1973, the two airlines, Icelandair and Loftleidir, were merged under a new holding company, Flugleidir. In October 1979, Flugleidir assumed all the operating responsibilities of its two parent companies and decided to use Icelandair as its international trade name, only retaining the Flugleidir name in the domestic market.

Although its formal founding date is 20 December 2005, Icelandair Group, in its current day form, is the result of a series of acquisitions, mergers, de-mergers, in- and divestments and comprehensive restructuring spanning the four decades, from 1979 - 2019. The Group's Shares have been traded on Nasdaq Iceland since 14 December 2006.

In 2017, Icelandair Group celebrated 80 years of successful operations in scheduled flight services making the name Icelandair one of the longest serving airline names in the world.

In November 2017 the Company announced changes to its structure. The operation and business activities of Icelandair Group and the main subsidiary of the Company; Icelandair are now integrated under the leadership of a single executive director and the finance divisions of the companies have been merged.

In February 2019, the Company further sharpened the focus on the core business, flight operations. Flight operations are divided into eight divisions consisting of four core business divisions and four supporting functions. At the same time the Company announced it was preparing the sales process of the remaining non-aviation subsidiary, Iceland Travel and merging shared services subsidiary Fjárvakur with the Group's finance division.

Key Milestones

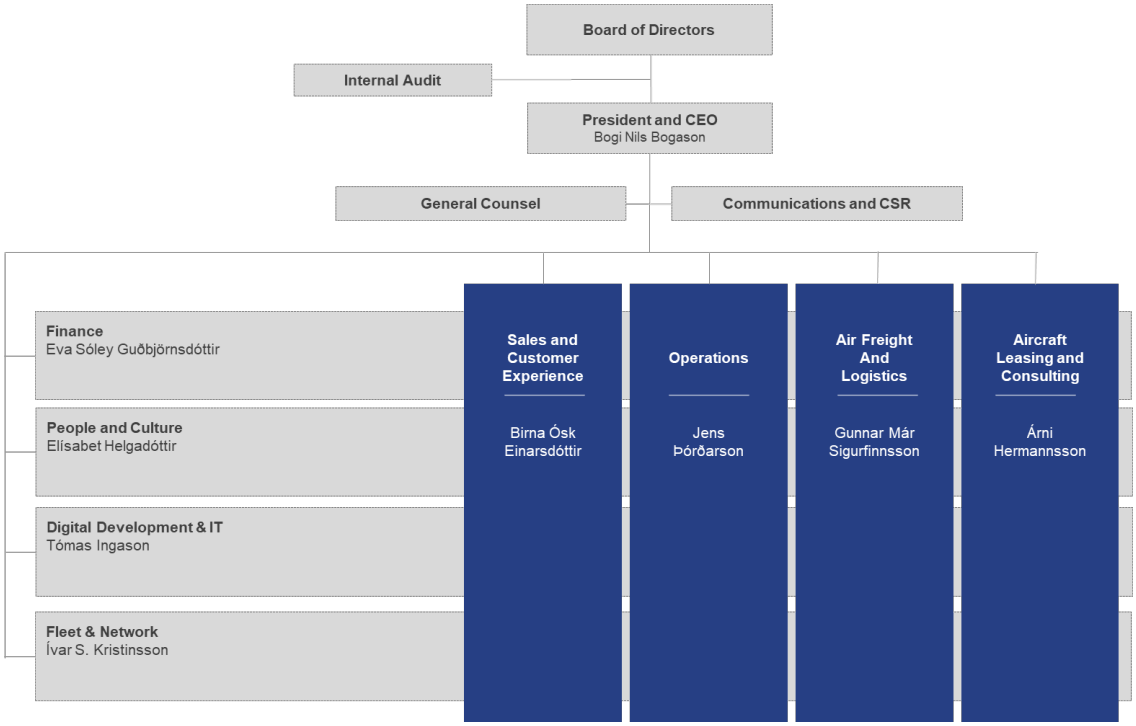
- **1937** One of the predecessors of the Group, Flugfélag Akureyrar, was founded in Akureyri.
- **1940-1980** Name changed to Flugfélag Íslands (Air Iceland) and headquarters moved to Reykjavík. Loftleidir and Flugfélag Íslands merged to form Flugleidir (Icelandair). International flights commenced.
- **1980-2000** Flugleidir was listed on the Icelandic stock exchange (currently known as the Main Market of Nasdaq Iceland hf.). Total renewal of the older aircraft fleet was finalised. Air Iceland (Flugfélag Íslands), a wholly-owned subsidiary of Flugleidir,

merged from Flugfélag Norðurlands and Flugleiðir's domestic flight operations. Icelandair Hotels (Flugleidahótel) and Icelandair Cargo were founded.

- **2006** Icelandair Group is listed on the Nasdaq Iceland Main Market.
- **2013** The Company commences its fleet renewal programme by signing with Boeing and confirming an order of sixteen 737 MAX8 and 737 MAX9 aircraft, with an option to buy an additional eight aircraft.
- **2017** Icelandair Group celebrated 80 years of operations.
- **2018** The number of passengers in the international Route Network totaled 4.1 million. a record number in the Company's history.
- **2019** Icelandair decides to divest its tourism operations placing the Airline and its Route Network at the core of its business.

4.3 Organisation

Item 11. Organisational Structure of Icelandair Group



The Company implemented a new organisational structure in February 2019. The new structure underpins the Company's primary focus going forward, flight operations and its international Route Network. As part of the changes the Company has resolved to integrate its shared services subsidiary Fjárvakur, with the Company's Finance division and divest its only remaining non-aviation subsidiary, Iceland Travel[14]. The changes signal the process of consolidating and integrating the flight operations under a single executive management regardless of under which brand or subsidiary the individual parts of the business are operated.

[14] Subsidiary Icelandair Hotels already having been put in sales process.

The Company is divided into eight divisions, four core business divisions and four supporting functions. The core business divisions are Sales and Customer Experience, Operations, Air Freight and Logistics and Aircraft Leasing and Consulting. The first three divisions focus on maximising the potential and creating value from the Group's international Route Network. Aircraft Leasing and Consulting uses Icelandair Group's long-standing experience, expertise, and operating resources to provide charter and consulting services to airline operators around the world. The four supporting functions are Finance, People and Culture, Digital Development and Information Technology, and Fleet and Network.

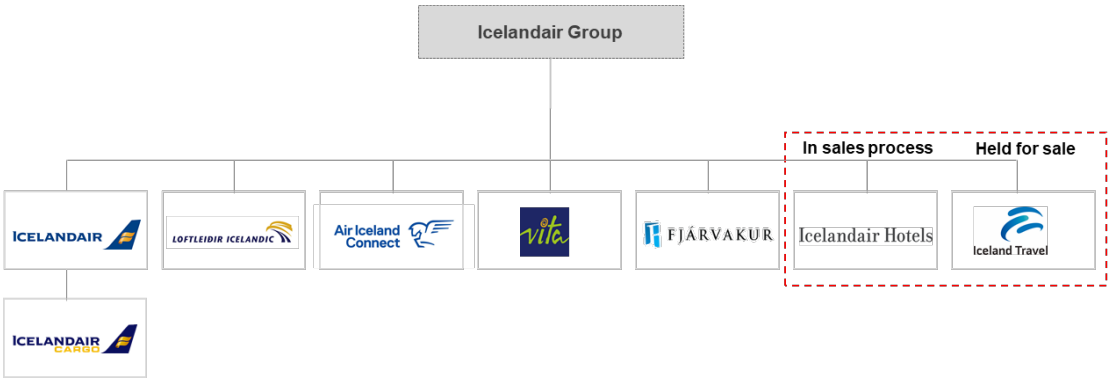
The Managing Directors of the above-mentioned divisions form Icelandair Group's Executive Committee, along with Bogi Nils Bogason, President & CEO.

4.3.1 Subsidiaries

Icelandair Group is the parent company of ten subsidiaries[15] that operate certain aspects of the Group's business[16]. As previously stated the Company has decided to divest its non-aviation business (subsidiaries) resulting in two of the eight currently being either in the process of being sold (Icelandair Hotels) or categorised as held for sale (Iceland Travel).

All of the subsidiaries are incorporated in Iceland and fully owned by Icelandair Group.

Item 12. Group Structure of the Issuer



Icelandair ehf.

Icelandair is a civil passenger airline with an international Route Network that serves three different and independent passenger markets; the Icelandic domestic market, i.e. the FROM market, the tourist market with Iceland as a destination, i.e. the TO-market, and the international market between Europe and North America, i.e. the VIA market.

For extensive and detailed information on Icelandair's operations reference is made to Chapter 5 *The Route Network* in this Share Registration Document.

[15] Icelandair Cargo is now a subsidiary of Icelandair ehf. (not the Issuer).
[16] Of the ten, the seven depicted in item 12 are the ones that have operational significance while others are smaller subsidiaries, in some cases holding companies, that are not of financial or operational significance.

Loftleiðir Icelandic ehf.

Loftleiðir Icelandic is a capacity solution company for international passenger airlines and tour operators. Loftleidir Icelandic focuses to leverage it's expertise by concentrating mainly on Aircraft and Maintenance (AM) projects and consulting services. At the end of 2018 Loftleiðir had ten aircraft at its disposal, comprising one B737-700, one B737-800, six B757-200 and two B767-200.

Air Iceland Connect ehf.

Air Iceland Connect is the Group's regional carrier. The company operates from Reykjavík Airport and offers a domestic flight schedule along with regular flights to several destinations in Greenland. The company operates a uniform fleet of Bombardier aircraft comprising three Bombardier Q400 and three Bombardier Q200.

Vita ehf.

Vita offers a variety of leisure tours to Icelanders travelling abroad. By leveraging Icelandair's capacity in the FROM market, Vita can offer organised groups and individuals trips with a direct charter flight operated by Icelandair.

Fjárvakur ehf.

Fjárvakur handles the accounting, reporting and salary processing for companies within Icelandair Group. This includes revenue accounting, management reporting, credit management and human resources' processes such as payroll and related services. Fjárvakur offers all it's services to external third parties on a contractual basis.

Icelandair Group has resolved to integrate the operations of Fjárvakur with Icelandair Group's finance department under the management of the Group's Chief Financial Officer. The integration is estimated to be completed in May 2019. The objective of these changes is to simplify processes and reduce operating costs.

Icelandair Hotels (Flugleiðahótel ehf.) – *In sales process*

Icelandair Hotels is a hotel operating company that provides hospitality services through a cohesive mix of international and local brands. The family of Icelandair Hotels cater to tourists, locals, business travellers and luxury seekers alike. The company operates a total of nine full-year hotels along with regional summer hotels, extensive Food & Beverage services and three spas. Icelandair plans to hold a 20% share in Icelandair Hotels following the transaction. The holding will be classified as an associated company in the consolidated financial statements of the Company going forward. For details on the impact the sale of the hotel operations will have on the consolidated financial statements following the implementation of IFRS 16 reference is made to Chapter 6.2.1 *IFRS 16 – Leases* in this Share Registration Document.

Iceland Travel ehf. – *Held for sale*

Iceland Travel is a leading tour operator in Iceland, offering a wide range of high-quality services for travellers from all over the world, including categories such as Leisure, MICE (Meetings, Incentives, Conferences and Events) and Cruise Services.

05 THE ROUTE NETWORK

Icelandair Group's business concept centres on Icelandair's Route Network[17] which is based on the hub-and-spoke model between Europe and North America via Iceland, leveraging Iceland's geographical position. This successful strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed the Airline to constantly grow and expand its Route Network over the past years. The Airline is a key component in the Group's business strategy.

The Airline operates under an AOC issued by the ITA and is as such considered European Aviation Safety Agency ("EASA") compliant. Icelandair is an Icelandic carrier and has route rights in accordance with this status.

5.1 Strategy and Vision

Icelandair Group has been at the forefront of devising a long-term strategy for Iceland as a year-round destination. Through its targeted efforts and significant investments, the Company has played a leading role in the development of Icelandic tourism, benefiting not only its own operations but the entire Icelandic travel industry. The focus on steadily expanding the Route Network over the years has been key to enhancing Iceland's position as an international connecting hub by efficiently connecting flights between Europe and North America.

To maximise the value creation from the Route Network and other operations, the Company has set a strategic focus that remains firmly centred around five key points:

1	2	3	4	5
The Route Network and Tourism Services	Reducing seasonality in the Group's operations	Organic growth and business development	Achieving greater synergies between Group companies	Improving efficiency with special emphasis on continued cost control

5.1.1 Vision

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.

The vision is supported by the Company's three operating pillars that lie at the heart of the business model and are meant to drive sustainable value creation for shareholders and other stakeholders.

Iceland tourist growth	Via growth	Flexibility and experience
Taking a driving-seat role in increasing tourism to Iceland across seasons from both existing and new markets	Network growth to strengthen the Iceland hub, maintaining short connection times at KEF through operational efficiency	Enabling rapid reactions to disruptive factors – a structure and culture that foster adaptability and nimbleness.

[17] In addition to the international Route Network the Company operates regional carrier Air Iceland Connect and capacity solution company Loftleiðir Icelandic. For further information on the operations of these strategic subsidiaries reference is made to Chapter 4.3.1 *Subsidiaries*.

5.1.2 Values

Icelandair Group's core values are grounded in the philosophy that guides employee's internal conduct as well as their external relations with customers, partners, shareholders and other stakeholders.

We care	We think clients	We drive results
For our customers, employees, environment and shareholders	Through consistency, reliability, clear product alternatives and friendly service	Via teamwork, shared information and values, accountability and profitability

5.1.3 Planned strategy shift in 2019

Icelandair has grown rapidly since its strategy was implemented in 2012. These efforts and investments have resulted in great achievements, both in strengthening Iceland as an all year-round world-class destination and establishing Iceland as a strong connecting hub between Europe and North America. In mid-year 2018, it was therefore decided to review the Company's strategy and set new goals for the future. A new vision, mission, values and five strategic initiatives will be presented later this year, work that is based on the input from around 600 employees who participated in 25 strategic workshops held in the spring of 2018. An action plan based on the new strategy and operating targets is in preparation and scheduled for presentation to shareholders and market participants in Q3 2019.

The objective is to operate an outstanding airline and maintain reliable quality service through the experience and knowledge gained in over 80 years of operations. Icelandair aims to be the airline of choice for travel to and from Iceland and a unique and exciting alternative for air travel across the North Atlantic through efficiency and flexibility.

5.2 Principal Activities

The heart of the Route Network is the 24-hour hub at Keflavík Airport. A typical flight will take off from Keflavik in the morning and fly to Europe, returning later in the day and flying west towards North America, from where it returns to Iceland the following morning. In spring of 2019, Icelandair will introduce a second connecting bank. With this change Icelandair will offer flights to selected European cities around 10:30 in the morning which on return to Iceland in the late afternoon will connect with selected cities in North-America around 20:00 in the evening. These departures will supplement current connecting options which are earlier in the morning and the afternoon. The new departure times are scheduled at considerably less busy hours at the Keflavík terminal which means less waiting during check-in and security, more efficient use of the fleet, staff and infrastructure at the airport.

The Airline's 2019 original Route Network comprised 23 European destinations and 21 North American destinations[18]. These 44 destinations in Europe and North America offered Icelandair customers 485 connection options through the hub in Iceland, which corresponds to a connectivity multiple 11.7 times the number of destinations. This 2019 Route Network represented a 10% increase in capacity ASK YoY.

The disruption caused by the suspension of the B737 MAX paired with recent changes in the competitive environment has led to changes in Icelandair's 2019 Route Network and flight

[18] Correspondingly the Route Network connected 26 European destinations and 23 in North America in 2018.

schedule. Firstly, during the period 1 April to 15 July 2019, Icelandair will scale back its operations, in most cases by cancelling flights to destination where more than one daily flight is available. Due to the larger size of the leased B767 aircraft (262 seats vs. 160-178 seats in the B737 MAX) the impact on total seat capacity will be minimal, or by 1%. Secondly, two North America destinations, Cleveland in the US and Halifax in Canada, will be canceled for the remainder of 2019. This change is implemented both as a response to the suspension of the B737 MAX as well as a decision to focus on meeting increased demand for flights to and from Iceland by moving supply from destinations that focus on travel between North America and Europe via Iceland. Thirdly, as a response to changes in the competitive environment Icelandair has decided to add flights to Southern Europe, i.e. Alicante whereto the Airline is offering three weekly flights.

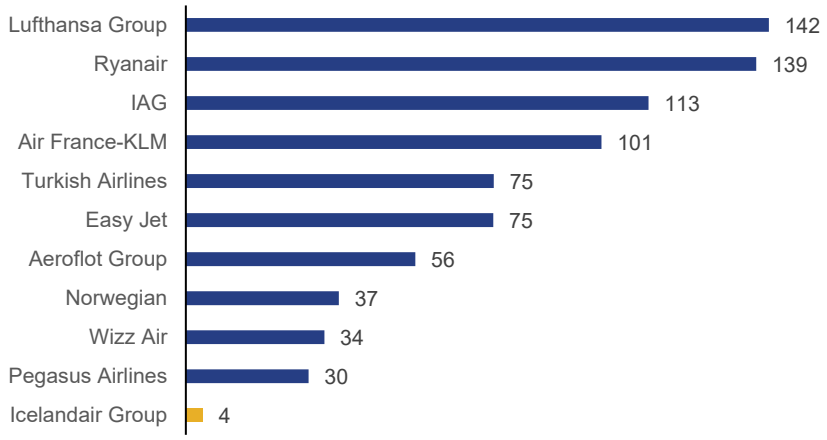
Item 13. Icelandair Route Network in 2019 [19]

5.3 Principal markets

Since the liberalization of the EU air transportation market in the 1990s the European airline sector has evolved significantly. In 1992 EU members adopted a final package of liberalization that permitted greater access to intra-EU international routes and in 1995 this was extended to EEA members (Iceland, Norway and Liechtenstein) as well. Since then the liberalization of the air transportation market has continued. The EU has signed numerous horizontal and full “open-skies” agreements with third-party nations. These agreements have been an important factor in liberalizing the air markets, allowing carriers to operate on any route, without restrictions on price or capacity. Despite a growing market for international travel, fierce competition coupled with volatility in jet fuel prices has resulted in several European operators going out of business including Germania, Air Berlin, Monarch Air, Primera Air, Cobalt Air and WOW air. The European airline market is however still very fragmented with 81 airlines holding 99% of the capacity vis-à-vis the US where a mere 10 airlines hold 99% of the capacity. Icelandair represents a marginal portion of total passengers.

[19] Flights to Halifax and Cleveland have since been canceled although still depicted as destinations in this graphic.

Item 14. Top 10 largest airlines in Europe & Icelandair Group, 2018[20] (m. of passengers)



The air transport industry is by its nature volatile, and several external factors can affect performance in the sector, such as exchange rate and fuel price trends. Changes in the competitive environment also have a significant impact.

The Company is working on several elements to improve year-round performance with a view to improving efficiency in operations and increasing revenue, particularly ancillary revenue. These elements include automation, integration, outsourcing and developing the Route Network to improve the efficiency of human resources, fleet and other operating assets.

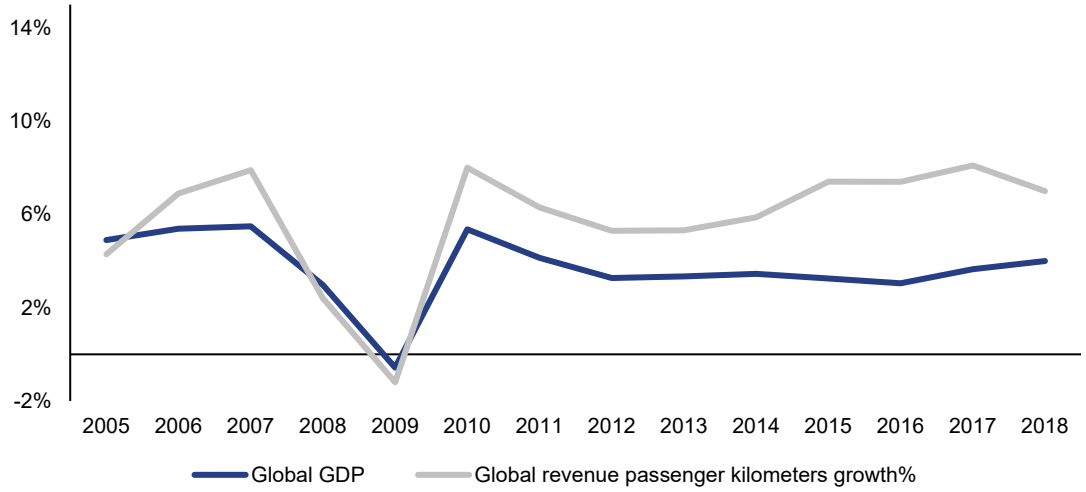
Recent organisational changes will facilitate improved efficiency in sales and services to customers. The Company is now in the process of commissioning a new and more efficient aircraft type. Maintenance also stands to be less costly as the aircraft in question are brand new. In the short term, the suspension of the new aircraft, the B737 MAX, will delay the positive impact of these savings. For further details on the Group's fleet see Chapter 6.10.1 *The Fleet*.

For Icelandair competition is continuing to increase in every market and rising salary levels are contributing to a challenging environment with lower yields across the board. Although passenger numbers increased in the first quarter of 2019 air fares continued to be low, resulting in lower revenue per passenger YoY despite a modest growth in ancillary revenue.

Growth in global revenue passenger kilometres (RPKs) has historically tracked GDP growth closely, outpacing the latter by approximately 1.6X. Following the 2007-2008 financial crisis, and consequent recession, global RPK fell in 2009 but bounced back in 2010 and has since been around 6%-8%. The number of global airline revenue passenger kilometres has grown by over 70% over the past decade. Globally, market outlook for airlines continue to be positive. Air travel has and is projected to continue to grow robustly[21], and load factors are historically high[22].

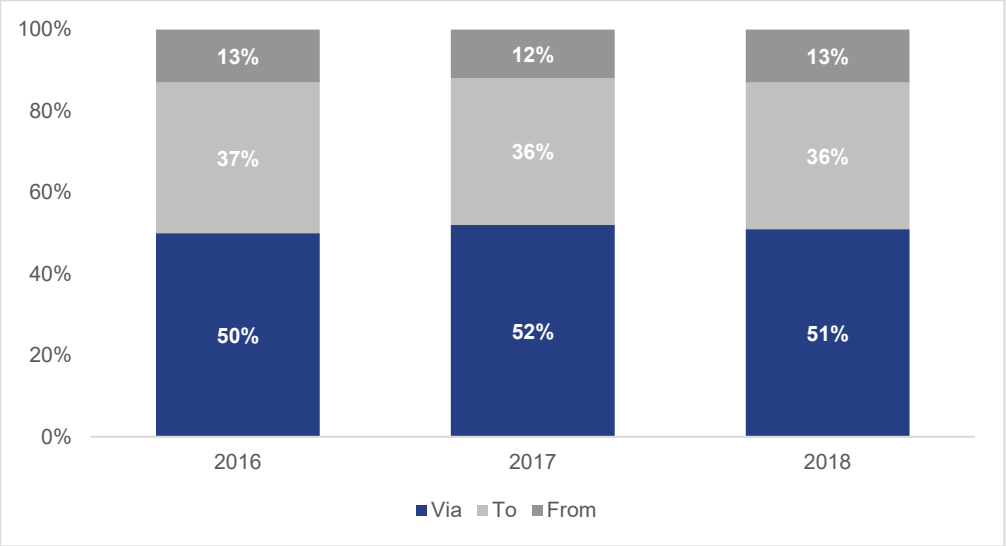
[20] https://en.wikipedia.org/wiki/List_of_largest_airlines_in_Europe.
[21] https://www.statista.com/statistics/193533/growth-of-global-air-traffic-passenger-demand/.
[22] In 2018 the average airline load factor worldwide was 81.7%, up from 75.2% in 2005. https://www.forbes.com/sites/michaelgoldstein/2018/07/09/meet-the-most-crowded-airlines-load-factor-hits-all-time-high/.

Item 15. Global GDP and air transport passenger growth per year (Bloomberg, IATA)



The Airline's Route Network serves three independent and distinct passenger markets: the Icelandic domestic market (FROM), the tourist market with Iceland as a destination (TO) and the international market between Europe and North America (VIA). Serving these three markets enables Icelandair to offer a higher flight frequency and a greater variety of destinations than would be possible by the markets to and from Iceland alone.

Item 16. Icelandair passenger mix 2016-2018



The United States is Icelandair's largest single destination country, while its European network focuses mainly on Scandinavia and Northern Europe, with the United Kingdom as the Airline's second largest destination country.

5.3.1 The VIA Market

Of the three markets, the "VIA" market is the largest and has been the main driving force of the growth of the route network in recent years. The VIA passengers have steadily represented around 50% of Icelandair's total passengers in the years 2016-2018. 2019 starts with challenging conditions in this market due to fierce competition resulting in a decline in

Icelandair's passenger numbers and the greatest lowering of airfares out of the three markets. As a response, Icelandair has reduced capacity in the transatlantic market and in turn increased it in the TO and FROM markets that have not suffered as much in terms of fares.

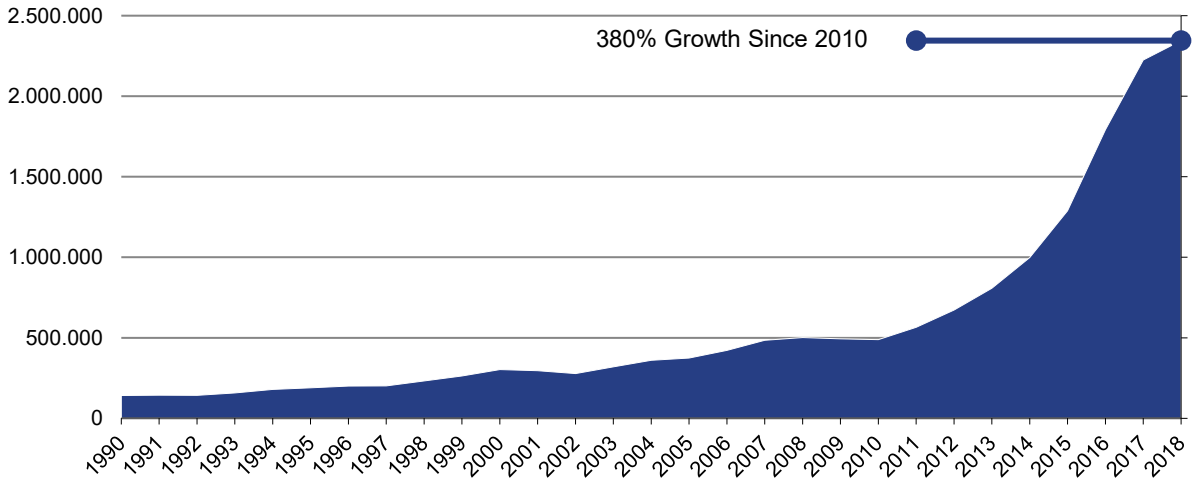
As previously discussed unfavourable market conditions in 2017-2018, where fuel prices have risen while yields have remained low, have caused disruption in the international aviation market with several carriers scaling down operations or going bankrupt. For Keflavík Airport the most meaningful is the bankruptcy proceedings of WOW air that on 28 March 2019 seized operations. This has led to ISAVIA warning of a contraction in number of passengers through Keflavík Airport for the first time since 2009.

5.3.2 The TO Market

Icelandair defines the TO market as passengers that fly to Iceland with the country as their destination, i.e. where the travel originates outside Iceland. Iceland has enjoyed far-above average growth in recent years[23]. From 2010-2018 the number of tourist arrivals to Iceland grew nearly 4-fold, reaching nearly 2.3 million in 2018, the highest in history. The TO market is one of Icelandair Group's three key markets and the Company will be the largest single supplier of direct ASK to Iceland in 2019. The Company does not expect interest in Iceland as a destination to decline but expects yields to continue to be pressed as competition remains fierce.

The share of TO passengers in Icelandair's passenger mix was stable around 36% in the years 2016-2018. Of the three markets, the TO market showed the greatest growth in passenger numbers in Q1 2019, 13% YoY.

Item 17. Number of tourists to Iceland 1990-2018 (Statistics Iceland)

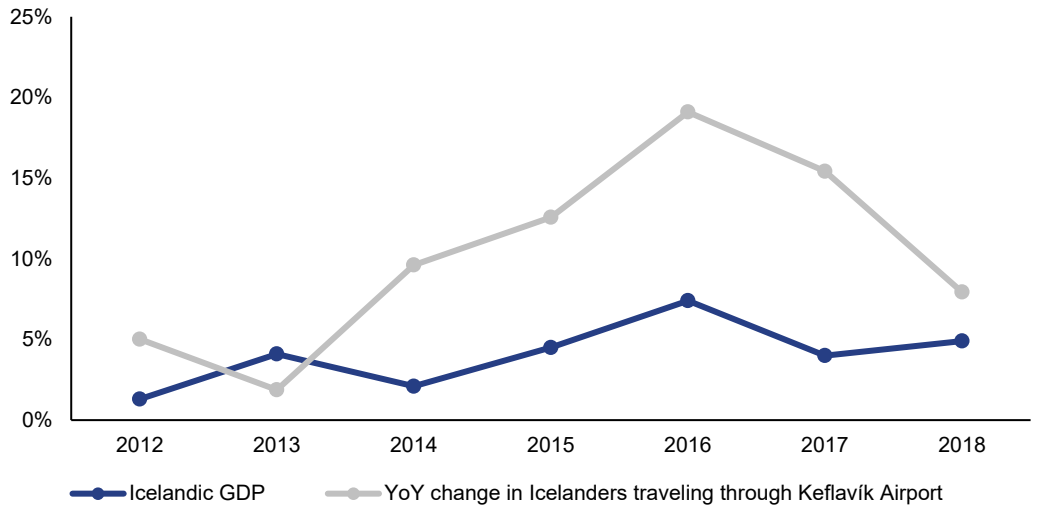


5.3.3 The FROM Market

The FROM market is defined as the Icelandic domestic market where the travel originates in Iceland. The market generally correlates with the Icelandic business cycle since it mainly consists of induviduals residing in Iceland. The first quarter of 2019 saw a 10% growth in the passenger numbers in this market segment with positive outlook for the year.

[23] The CAGR of incoming visitors was 21.7% in the years 2010-2018 Source:Icelandic Tourist Board.

Item 18. Annual Icelandic GDP and YoY change in Icelanders traveling through Keflavík airport (Statistics Iceland)



5.3.4 The Charter Market

Loftleidir Icelandic focuses on the Aircraft and Maintenance product in its sales and marketing efforts, especially the B737NG[24] type, while maintaining its marketing efforts in the VIP, Aircraft, Crew, Maintenance and Insurance ("ACMI") and Full Charter markets. In addition, increased emphasis will be put into Icelandair Group's aircraft management and consulting activities, which include network development, revenue accounting, ticket sales and marketing activities. Finally, aircraft end of service activities such as teardown and part sales will be added to the list of activities for Loftleidir. These are services offered to third party airlines that are in the process of retiring aircraft and/or disposing of their usable parts.

As in recent years, the ACMI market continued to show strong demand in 2018 with very limited supply, especially over the High Season. As before, the strongest demand was in the narrow body market, especially for A320s and B737NGs. The first quarter of 2019 shows a downwards trend in the Company's charter business, due to maintenance of own aircraft and cancellation of a project that the Company decided to withdraw from.

5.3.5 The Cargo Market

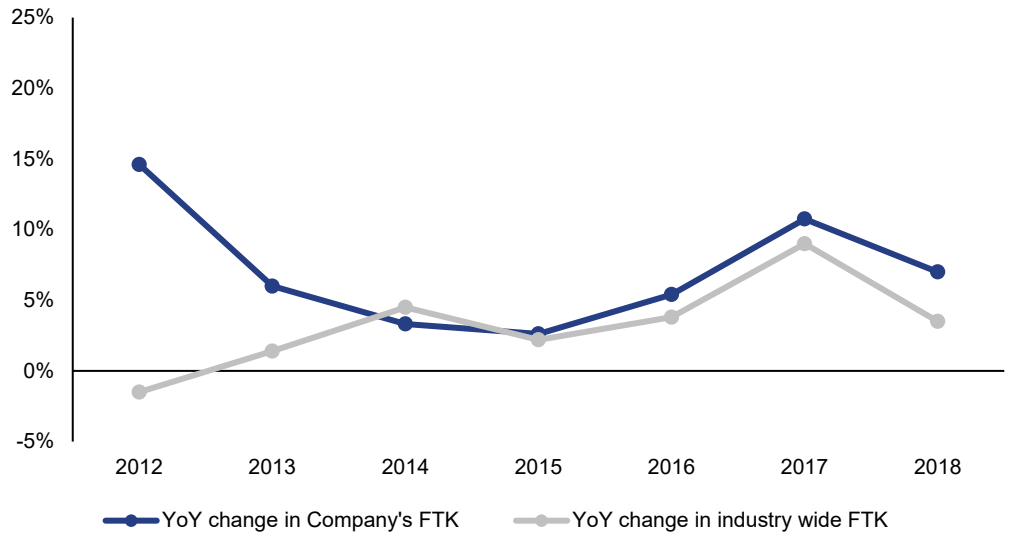
The Company's cargo operation focuses on air freight services to and from Iceland by leveraging the Route Network with scheduled air cargo flights to and from North America and Europe. The cargo operation operates two B757-200 freight aircraft and in addition to selling cargo hold space on the Airline's passenger aircraft.

Industry wide carried freight measured in Freight Tonne Kilometres (FTK's) has increased by 25% since 2012 or 4% on average per year[25]. In 2018 the global demand rose by 3.5% with a 3.2% increase in Europe and 6.8% in North America. Global capacity increased by 5.4% with 4.3% and 6.8% increase in Europe and North America respectively[26].

[24] NG stands for Next Generation, the name given to the −600/-700/-800/-900 series of the Boeing 737 airliner. They are short- to medium-range, narrow-body jet airliners powered by two engines.
[25] Source: IATA.
[26] Source: https://www.iata.org/pressroom/pr/PublishingImages/freight_infographic_-18.png.

The Company's carried freight amounted to 126 million FTKs in 2018, up by 7% from the preceding year.

Item 19. Annual YoY change in industry wide and Company's FTK's (IATA)



The largest market and most important product for the Company's exported carried freight has been fresh seafood whereas the largest imports include fruit and vegatables, pharmaceuticals and spare parts.

5.3.6 The Regional Domestic Market

One of the Company's subsidiaries Air Iceland Connect, operates a domestic flight schedule in Iceland as well as routes from Iceland to Greenland. As is the case with the FROM market the Regional Domestic Market has historically shown a correlation with the underlying performance of the local economy. The operation of Air Iceland Connect was difficult in 2018 and saw poorer performance with a 13% decline in passenger numbers. The fourth quarter in particular was very poor contributing to the Group's overall lowered EBITDA. This trend continued in Q1 2019 and as a result the company's operation is undergoing a thorough review with a view to prevent further operating losses.

5.4 Employees

Icelandair Group seeks to attract talented and qualified employees who can help the Company meet the challenges of the future while at the same time fitting into the existing corporate culture.

Icelandair Group's human resources strategy emphasizes equality and non-discrimination and embraces diversity. The Company makes sure that its employees are provided equal opportunities and equal rights are part of the the Company's Equal Rights Policy and Equal Rights Plan, approved by the Executive Committee.

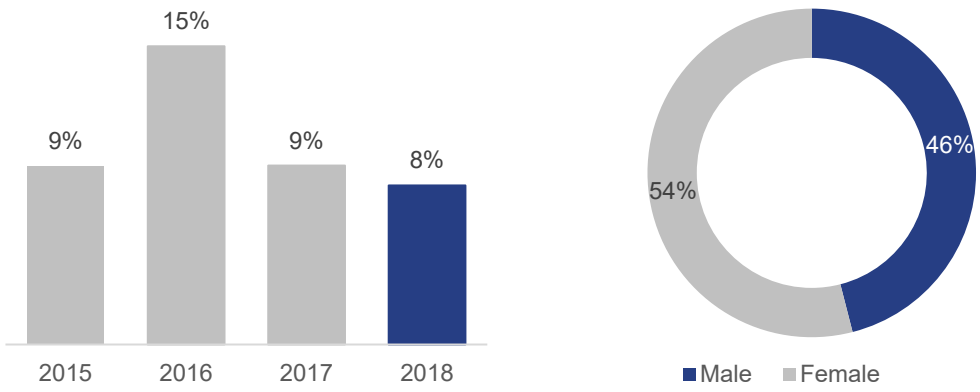
In early 2018 Icelandair Group sharpened its policy and actions against bullying, sexual and gender-related harassment and violence. The policy and its related actions include clear procedures and preventive measures. Information on the policy can be accessed on the Company's intranet, together with a plan of action that details the options available to

employees who feel victimised. All managers received appropriate training and open lectures were held for all employees to attend.

In accordance with the Gender Equality Act No.10/2008 Icelandair Group has implemented an Equal Pay Policy in order to improve gender equality and to acquire an Equal Pay Certification.The Company wishes to enforce the current legislation which prohibits discriminatory practices based on gender and requires women and men working for the same employer to be paid equal wages and enjoy equal terms of employment for the same jobs or jobs of equal value. Icelandair Group has been certified and received the Equal Pay Certificate for the Airline, along with the Cargo operations, and Icelandar Hotels in February 2019.

Icelandair Group has grown at an extremely robust pace in recent years, adding many destinations and generally growing across all segments. As the business has expanded so has the Company's staff, which has increased on average by 10.4% in number annually. Full time equivalents were 4,604 on average in 2018 with the gender ratio being close to equal.

Item 20. Icelandair Group employees - Growth (lhs) and Gender Ratio (rhs)



Item 21. Icelandair Group employees, full time equivalents (FTEs)

	2018	2017	2016
Icelandair	3,260	2,922	2,619
Icelandair Cargo	80	56	58
Icelandair Shared Services (Fjárvakur)	137	127	128
Air Iceland Connect	233	232	224
Loftleidir-Icelandic	11	10	10
VITA	30	25	23
Icelandair Hotels[27]	673	677	646
Iceland Travel[23]	168	197	176
Parent Company	14	17	16
Total	**4,606**	**4,263**	**3,900**

[27] Asset held for sale, will not be part of FTEs after 2019.

06 OPERATIONAL AND FINANCIAL REVIEW

Following is a discussion of Icelandair Group's operational and financial condition and results of operations. The discussion is based on the audited consolidated financial statements for the years ended 31 December 2018, 2017 and 2016 as well as the condensed consolidated interim financial statements (the "Interim Accounts") for the three months ended 31 March 2019 and 2018 respectively.

KPMG has audited the annual consolidated financial statements of the Group for the referred fiscal years in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Financial Reporting Interpretations Committee. The financial statements can be found in Chapter 10 *Consolidated Financial Statements*. The consolidated financial statements contain neither qualifications nor disclaimers by the auditor. KPMG has been the Company's auditor from 1973. The interim accounts are neither reviewed nor audited.

Investors should read the following discussion together with the Group's consolidated financial statements and the related notes, as well as the other sections of the Prospectus, and should not rely solely on the information contained in this section.

The 2019 outlook contained in this section reflects the Executive Committee's general outlook at the date of this Share Registration Document and is subject to risks, uncertainties and other factors that could differ materially from those contemplated here. Factors that may cause such differences include, but are not limited to, those discussed in chapters 1 *Risk factors* and 2 *Notice to investors*. The Company has not issued any numerical goals or guidance for the 2019 fiscal year.

The Executive Committee of Icelandair Group is not aware of any governmental, legal, economic or fiscal policies in Iceland or other jurisdictions that have in the past twelve months, or could in the next twelve months, likely have material adverse effect on the Company's financial position or results of operations.

For changes to the Company's financial or trading position since the end of the last financial period, 31 March 2019, reference is made to Chapter 6.1 Recent *events and changes to reporting*.

6.1 Recent events and changes to reporting

Since the end of the last period for which audited financial statements have been published certain events have or are set to take place. These changes, to a smaller or larger extent, will have bearing on the Company's financial reporting going forward. Investors are advised to consider this when making comparison between individual fiscal years and quarterly accounts as well as between the Company's 2018 and future consolidated financial statements.

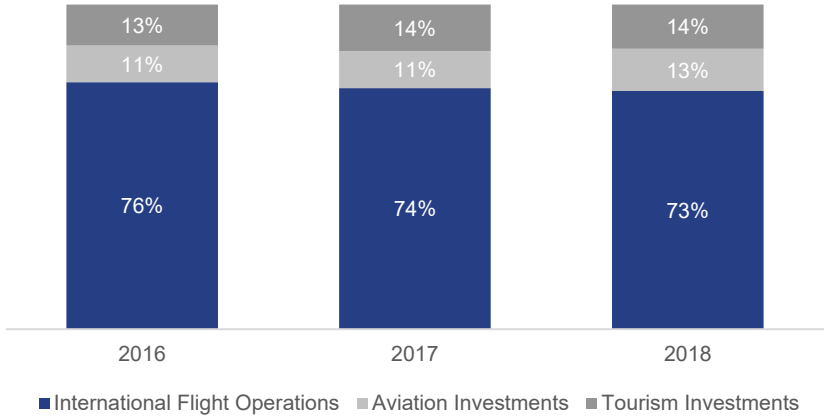
The largest, most significant changes are:

- Changes to business segment reporting
- Divestment of Icelandair Hotels and Iceland Travel
- Pre-payment of listed bond classes
- Lease of Boeing aircraft
- Share capital increase

6.1.1 Changes to business segment reporting

The Company has abandoned the business segment split used for reporting in the 2018 and 2017[28] consolidated financial statements. Below is a split of historical revenues based on these now retired segments. Revenues from each of these segments can be seen in item 23.

Item 22. Revenue split by business segments



Item 23. Revenues by business segments

USD '000	2018	2017 Restated	2016 Restated
International Flight Operations	1,102,678	1,049,310	1,141,044
Aviation Investments	196,367	155,979	155,583
Tourism Investments	211,473	198,518	175,341
Total revenue	**1,510,518**	**1,417,987**	**1,471,968**

Item 24 shows the Company's revenues split by business segments that will be used going forward as well as comparative figures for 2018.

Item 24. Revenues by business segments as of Q1 2019

USD '000	2019 1.1.-31.3.	2018 1.1.-31.3.
Passenger Network	168,577	172,254
Aviation Services	52,860	59,864
Tourism[29]	26,715	35,501
Total revenue	**248,152**	**267,619**

6.1.2 Divestment of Icelandair Hotels and Iceland Travel

In May 2018, following a strategic decision to place greater focus on the Group's key competencies, i.e. the flight operations, the Company initiated a process to sell its hotel operations. At the date of this Share Registration Document the Company is in final negotiations with a potential buyer that are expected to be concluded in the first half of 2019. Overall the hotel operation is deemed to be immaterial on the Group's consolidated statement of comprehensive income and is included but not separately shown as discontinued operations. The Company assumes to hold a 20% stake in the sold assets post-transaction

[28] The reporting segments in 2016 consisted of the following: Route Network, Tourism Services and Shared Services.
[29] Will be retired once Icelandair Hotels and Iceland Travel have been disposed of. These assets are currently held for sale.

which will be held as an associated company on the Group consolidated balance sheet. Item 25 details the impact on key financial items in Q1 2019 compared to the same period of 2018. For full details see Note 6 to the Group's Q1 2019 Interim Accounts.

Item 25. Impact of tourism services on key items of the Q1 2019 Interim Accounts

USD ´000	**2019** 1.1.-31.3.	**2018** 1.1.-31.3.
External revenue	26,703	19,236
Loss from operating activities	(9,084)	(3,922)
Loss from tourism services, net of tax	(7,170)	(3,152)
Net cash flows for the period	687	(2,836)
Operating assets	98,368	102,491
Right-of-use assets	173,606	0
Loans and Borrowings	(33,831)	(35,644)
Net Assets and liabilities	68,060	72,925

The divestment process of Iceland Travel is in early stages with no official timeline having been published other than that the Company expects it to be concluded before year-end 2019. Iceland Travel accounted for 6.86% of the Group's revenues in 2018 and 2.6% of EBITDA.

6.1.3 Pre-payment to holders of the Company's bond classes

Under recent amendments to the terms and conditions of the Company's two bond classes[30] the Company has, at the date of this Share Registration Document, redeemed all outstanding bonds of its ICEAIR 15 1 class and one-third of the USD 190 million class bearing ISIN NO0010776982 along with accrued interest. Total payments made in connection with these redemptions amounted to USD 89.3 million whereof 1.5 million was accrued interest. The source of funds was cash at hand.

The Company further holds the right to redeem all or some of the remaining outstanding nominal amount of the NO0010776982 bond class at a price equal to 102% of the nominal amount together with accrued but unpaid interest if paid during the period from 1 April to (and including) 31 December 2019. The Company expects to redeem the bonds in full before the end of the second quarter 2019.

6.1.4 Lease of three Boeing aircraft

On 1 April 2019 the Company announced it had entered into a leasing agreement regarding two Boeing 767-300 aircraft. The first aircraft came into operation mid-April and the second one at the beginning of May. Both aircraft have 262-seats and will be in operation until the end of September 2019. On 10 April Icelandair announced it had secured a lease of a third aircraft a Boeing 757-200 model with 184 seats that will enter the fleet in mid-May and be at the Company's disposal until end of September. Icelandair reserves the right to seek compensation from the Boeing Company for the cost associated with these leases as well as for all other costs incurred due to the B737 MAX grounding. The Company can at this time neither speculate on if or when such damages will be paid nor how large an eventual payment will be.

[30] For details reference is made to Chapter 1.3.9 *The Company is exposed to contractual risk regarding loan covenants* in this Share Registration Document.

6.1.5 Share capital increase

On 3 April the Company announced that it had entered into a binding agreement with PAR Capital Management, a Boston-based investment management company, for the latter to acquire 625,000,000 new Shares in Icelandair Group at a price of ISK 9.03 per share. The total purchase price amounts to ISK 5,643,750,000 payble to the Company.

6.1.6 Other significant changes

Apart from what is stated above no other significant changes have occurred that would impact the Company's financial or trading position since the end of the last financial period for which audited financial statements have been published, 31 December 2018.

The Executive Committee of the Company is not aware of any governmental, legal, economic or fiscal policies in Iceland or other jurisdictions that have in the past twelve months, or could in the next twelve months, likely have material adverse effect on the Company's financial position or results of operations.

6.2 Changes in reporting standards

6.2.1 IFRS 16 - Leases

As of 1 January 2019, Icelandair Group implemented a new financial reporting standard, IFRS 16 that specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

Essentially, IFRS 16 dictates that airlines recognise lease agreements as liabilities with a corresponding recognition of a right-to-use asset. Operating leases that were previously off-balance sheet are now on the balance sheet, impacting leverage ratios and loan covenants. This change will have a significant impact on airlines that rely heavily on leased, rather than owned, aircraft. In addition, the capitalisation of leases will essentially raise EBITDA and EBIT for airlines that more heavily utilize operating leases. On 31 March 2019 Icelandair owned 41 of its 52 aircraft fleet.

The Company has applied IFRS 16 using the modified retrospective approach, with no restatement of comparative information. The Company has elected to apply the practical expedient to grandfather the definition of a lease on transition, and thereby applying IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

With the application of IFRS 16, the nature of expenses related to operating leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease. As a result, the application of IFRS 16 led to an increase in loss of the period ended 31 March 2019 by USD 1.7 million. The effects on Profit and Loss line items are listed in item 26.

Item 26. Effects of IFRS 16 on Q1 2019 Interim Accounts

USD '000	**Amounts without adoption of IFRS 16**	**Adjustment IFRS 16**	**2019** 1.1.-31.3. As reported
Operating income			
Transport revenue	167,473	0	167,473
Aircraft and aircrew lease	27,432	(2,312)	25,120
Other operating revenue	56,083	(74)	56,009
Total operating income	**250,988**	**(2,386)**	**248,602**
Operating expenses			
Salaries and other personnel expenses	110,216	0	110,216
Aviation expenses	103,826	(12,545)	91,281
Other operating expenses	66,274	(4,501)	61,773
Total operating expenses	**280,316**	**(17,046)**	**263,270**
EBITDA	(29,328)	14,660	(14,668)
Depreciation and amortisation	(31,198)	(13,713)	(44,911)
Operating loss before net finance (costs) income	(60,526)	947	(59,579)
Net finance (costs) income	(6,184)	(3,110)	(9,294)
Loss before income tax	(66,305)	(2,163)	(68,468)
Income tax	12,922	433	13,355
Loss for the period	**(53,383)**	**(1,730)**	**(55,113)**

For a full discussion of the implementation of IFRS 16 at the Company, reference is made to Note 4 to the Interim Accounts.

According to the Company management's analysis the change resulting from the implementation of IFRS 16 will, all other things constant, not cause a breach of any of the Company's existing loan covenants. The Company currently has a waiver from the bondholders of the bond class carrying ISIN NO0010776982 whereby maintenance tests of gross leverage are waived until and including 30 June 2019. For further details reference is made to Chapter 1.3.9 *The Company is exposed to contractual risk regarding loan covenants* in this Share Registration Document.

6.2.2 IFRS 15 – Revenue from Contracts with Customers

As of 1 January 2017, the Group adopted IFRS 15. IFRS 15 impacts revenue recognition of service fees, change fees, package tours, commissions, credit card fees and booking fees. Below is a table that shows the impact of IFRS 15 on the consolidated statement of comprehensive income for the year 2018. Further details are set out in Note 5 to the Group's 2018 consolidated financial statements.

Item 27. IFRS 15 impact on 2018 consolidated statement of comprehensive income

USD '000	**Amounts without adoption of IFRS 15**	**Adjustment IFRS 15**	**2018** 1.1.-31.3. As reported
Operating income			
Transport revenue	1,092,610	704	1,093,314
Total operating income	**1,509,814**	**704**	**1,510,518**
Operating expenses			
Other operating expenses	368,889	(3,391)	365,498
Total operating expenses	**1,437,430**	**(3,391)**	**1,434,039**
EBITDA	**72,384**	**4,095**	**76,479**
Loss before income tax	(71,905)	4,095	(67,810)
Income tax	13,059	(819)	12,240
Loss for the year	**(58,846)**	**3,276**	**(55,570)**

6.3 General trends and developments

In the period covered by the historical financial information in this Prospectus the Company has experienced substantial fluctuations in its external operating environment as well as implemented significant operational and structural changes in its operations.

2016: Good operating year despite uncertainties in operating environment

While 2016 was the second-best operating year in the Company's history, the Brexit vote, along with terrorist attacks in Europe, acted to reduce consumer confidence and put a damper on demand. The result was increased uncertainty and a decline in average airfares, a trend that to this date continues to be prevalent. The Company set to meet this trend with, among other things, introducing changes in the structure of its air fares and increased diversity of product offerings as a means of meeting increased competition and different patterns of consumer behaviour. These events coupled with rising jet fuel prices, rendered general airline operating conditions more difficult. For Icelandair unfavourable currency trends (strengthening of the ISK) exacerbated the situation.

2017: Icelandair Group and the Airline integrated under a single management and board

On 15 November 2017 it was announced that the operations of Icelandair Group and Icelandair would be integrated under one CEO and the finance departments of the companies would be merged. Björgólfur Jóhannsson was appointed the CEO of the Company and Bogi Nils Bogason the CFO. Following the changes, two subsidiaries of Icelandair Group, IGS was merged with the Airline and Icelandair Cargo became its subsidiary. The objective of the changes was to bring about a reduction in management positions, resulting in shorter lines of communication and a clearer focus on flight operations as the Company's core operation.

2018: New Organisational Structure, and later President & CEO

On 4 January 2018 it was announced that the Company had implemented a new organisational chart, with changes to the Executive Committee and business activities. The change was made to sharpen the Company's focus on its core business in a bid to streamline and increase efficiency. Following the changes, the business activities of the Company were divided into two segments: International Flight Operations and Equity Investments.

On 27 August 2018 the Company lowered its EBITDA guidance for 2018 to the range of USD 80-100 million based on two main parameters; Firstly, the Company expected the increase of average fares to occur later than originally thought, not until in 2019. Secondly, changes in the Company's Route Network had resulted in an imbalance between Europe and North America flights leading to lower passenger revenues in the range of USD 50-80 million. As a result, Björgólfur Jóhannsson resigned as the Company's President & CEO, ultimately replaced by the Company's CFO Bogi Nils Bogason.

6.3.1 Effects of fluctuations in the market price of jet fuel

The Company's financial results are substantially affected by the market price of jet fuel, as fuel costs are the second largest cost item for the Company, after salaries. Jet fuel costs amounted to USD 298.8 million in 2018, 20.8% of the Company's operating expenses (before depreciation) in 2018. The residual impact of jet fuel price fluctations is determined by hedging applied in fuel purchases. The Company's operating results can however be materially affected by changes in the price and availability of jet fuel despite such hedging[31]. The current Group strategy is to hedge between 40% and 60% of fuel consumption 12-months forward and up to 20% from 13-18 months forward. In implementing the strategy, the hedge programme allows for a number of derivatives with approved counterparties and within approved limits. At year-end 2018, 55% of an estimated 12-months exposure of 437,000 tonnes was hedged with swaps. The supply and demand of jet fuel is unpredictable and price fluctuations are based on events outside the Company's control. At 31 March 2019 47% of the estimated 12-months use was hedged with swaps and 3% of estimated use 13-18 months forward. Due to world market price volatility the Company's hedges were negative in the first quarter of 2019. The Company's current 12 months hedge price is USD 701/mt while the current average world market price is 627/mt. The Company's current 13-18 months hedge price is USD 675/mt.

Jet fuel prices averaged USD 686/mt in 2018 compared to USD 527/mt in 2017, a 30.1% increase YoY. Jet fuel prices have increased significantly in the period for which historical financial information is included in this Prospectus, going from USD 264/mt on 20 January 2016 (2016 average: USD 428/mt). Jet fuel price increases in recent years have affected the profitability of the entire airline industry.

[31] The Company's risk policy requires a hedge ratio between 40% and 60%.

Item 28. Jet fuel mid price USD/mt (Bloomberg)

Generally, airlines can pass on the cost of rising jet fuel prices to customers. However as previously stated, 2016 saw the start of an abnormal trend of falling average air fares due to uncertainties in global politics coupled with fierce competition. This trend has prevented the Company, as well as other airlines, from increasing air fares to reflect higher jet fuel prices, thus decreasing overall industry yields. The Company's average air fares[32] amounted to USD 212 in 2018, compared to USD 214 in 2017. Due to changes to the fare structure average air fare amounts for 2016 are not comparable[33].

Investors are advised to bear in mind that if and while this trend continues to prevail it will likely detrimentally affect the Company's financial position and results of operation. If prolonged this situation may further have implications for the Company's product offering and scheduled destinations of the Route Network.

6.4 Capitalisation and capital commitments

The Board of Directors is tasked with the responsibility of optimising the capital structure of the Company and thus maintaining Icelandair Group's financial strength. The Board has adopted a dividend policy whose objective is to pay 20-40% of annual net profit as dividend to its shareholders. The final decision on dividend payment will be based on the financial position of the Company, operating capital requirements and market conditions. Dividend payments may at times also be impacted by the Company's liquidity needs, financial covenants and other possible factors that might limit dividend payments to shareholders at any given time. These considerations might affect the proposed amount of dividend and even lead to no dividend payments. The Company's dividend payment amounted to USD 5.2 million for the 2016 fiscal year and USD 7.2 million for the 2017 fiscal year. No dividend was paid for the 2018 fiscal year.

[32] Determined here by dividing passenger revenues by the total number of passengers.
[33] 2016 figures do not reflect changes in passenger revenues resulting from the implentation of IFRS 15.

At 31 March 2019 the carrying amount of Icelandair Group's total interest-bearing loans and borrowings was USD 391 million, whereof 36 million was denominated in ISK, 285 million in USD and 70 million in EUR. The debt carried a weighted average interest rate of 5.7%, 4.93% and 1.4% respectively.[34] At 31 March 2019 the Company's equity ratio was 23% and NIBD/EBITDA was -35 as opposed to an equity ratio of 32% and NIBD/EBITDA of 1.52 at year-end 2018.

The Company is the issuer of a listed bond category: ISIN NO00107769982. When issued the bond class was in the nominal amount of USD 190 million. Following a written procedure with the bondholders in late 2018 the Company redeemed one-third of the principal on 15 January 2019 at a call price of 101.5%[35]. The remaining balance of the principal at 31 March 2019 was therefore USD 126 million. Due to this development, the bonds were categorised as short-term financing on the Company's balance sheet as of 31 December 2018.

The Company's cash and cash equivalents amounted to USD 289 million at 31 March 2019.

6.4.1 Aircraft financing

Aircraft financing refers to financing for the purchase and operation of aircraft. The global market for such financing is both extensive and active.

Icelandair Group has employed three financing options for the purchases of aircraft; Pre-Delivery Payments ("PDP"), Sale-leaseback and Japanese Operating Lease with a Call Option ("JOLCO").

PDP is where partial payments of the aircraft price is made by the customer to the aircraft manufacturer pursuant to an aircraft purchase agreement in advance of delivery of the aircraft. Such payments can account for as much as 30% of the final aircraft purchase price.

Sale-leaseback is a financial transaction under which the aircraft owner sells the aircraft to the lessor and then immediately leases it back. Historically Sale-leaseback arrangements were treated as an operating lease, constituting an off-balance sheet item. Effective as of 1 January 2019 operating leases, including Sale-leaseback, are treated as finance leases with regards to financial reporting under IFRS 16. Lease agreements under the Sale-leaseback arrangement will thus be recognised as liabilties on the balance sheet with the corresponding right to use the aircraft stated as an asset. The changes impact leverage ratios and loan covenants of all airlines employing this financing option, including Icelandair. For details on the impact of IFRS 16 on the Company's Q1 2019 Interim Accounts reference is made to Chapter 6.2.1 *IFRS 16 – Leases* in this Share Registration Document.

JOLCO is a lease which gives the lessee an option to purchase the aircraft at the end of the lease, or at some point during the lease period, at a pre-determined purchase price. If the lessor is a non-Japanese entity, a Japanese title holder is required for registrating the aircraft with the Japanese Civil Aviation Bureau. In this case, it is common for the aircraft to be sold by the lessor to a nominal title holder during the lease term. JOLCO is treated as a financing lease according to IFRS and is capitalised on the balance sheet.

In 2013 Icelandair Group and Boeing signed an agreement for the purchase of sixteen 737 MAX8 and 737 MAX9 aircraft with an option to purchase an additional eight aircraft of the same type. The delivery of the first three aircraft was in the first half of 2018. The commitment for all sixteen aircraft was valued at USD 1.6 billion which was Boeing's list price when the agreement was finalised. The

[34] See Note 12 in the Company''s Q1 Interim Accounts.
[35] For details on this issue reference is made to Chapter 1.3.9 *The Company is exposed to contractual risk regarding loan covenants.*

Company received acceptable discounts that, due to confidentiality agreements, cannot be disclosed. Pre-payments according to the agreement were (and will be made) over the construction period.

The current delivery plan of the aircraft is as follows:

Item 29. Boeing 737 MAX8 and MAX9 delivery schedule

	2019	2020	2021
Boeing 737 MAX8	3	2	1
Boeing 737 MAX9	3	3	1
TOTAL	**6**[36]	**5**	**2**

Of the aircraft delivered in 2018, two were financed with a JOLCO financing structure and one with a Sale-leaseback arrangement with BOCOMM Leasing Aviation.

The Company has completed the financing of all six aircraft scheduled for delivery in 2019. All the aircraft were financed through Sale-leaseback arrangements, three with BOCOMM Leasing Aviation, one with BOC Aviation (lease period of 12 years with a call option 30 months into the lease), and two with SMBC Aviation Capital (lease period approximately 9 years).

The Company has further secured financing for one of the aircraft scheduled for delivery in 2020, through a Sale-leaseback arrangement with BOC Aviation. In addition to the Sale-leaseback arrangements, the parties entered a financing facility regarding the financing of pre-delivery payments of the aircraft to be delivered in 2019 and 2020. As the Company had already made these payments, using its own funds, the USD 200 million facility acted to increase the Company's 2018 year-end liquidity by USD 160 million.

At the date of this Share Registration Document the Company remains to arrange financing for the remaining six aircraft to be delivered in 2020 and 2021.

6.5 Outlook

Operations in 2019 have and continue to be characterised by uncertainty. Icelandair's booking status for the second quarter is favourable, and the impact of the suspension of the B737 MAX aircraft on seat capacity will also be insignificant in the quarter. Even though the Company has been forced to cancel some flights in the period 1 April – 15 July, this corresponds to only a 2% reduction in seat capacity, as the place of the MAX aircraft is filled by larger aircraft. The trend for passengers to book their flights closer to departure times than before has the result that the uncertainty in our income projection is greater than before. Air fares remain under considerable pressure as a result of the fierce competition in the North Atlantic market. The Company has responded by moving capacity from the transatlantic route to the to and from Iceland route.

The end of the first quarter saw considerable changes in the Company's competitive environment in Iceland. In the opinion of the Company's management, these changes will create opportunities for profitable growth for the Company; however, the uncertainty surrounding the B737 MAX aircraft restricts the ability to take advantage of these opportunities in the short term. Ancillary revenue continues to grow in excess of passenger

[36] At the date of this Share Registration Document the Company has taken delivery of three of the scheduled six B737 MAX and has requested a postponement of the delivery of the remaining three.

numbers, and the Company has set itself an objective to do even better in that area. A new revenue control system was successfully launched at the end of March. The Company's target is to increase revenue by 2-4% following implementation, absent of other changes, as experience of the system grows, at the latest by early 2020.

The performance of Air Iceland Connect has been unacceptable, and the company's operations are now undergoing a thorough review. An action plan has been put in place to prevent further operating losses.

The operation of the Vita Travel Agency is showing success with a 40% increase in seat capacity being projected in the company's charter operations this year. Capacity to Tenerife and Alicante, two popular destinations for Icelandic tourists, will be doubled over the coming summer. The booking status has surpassed expectations and the overall prospects of the company are favourable.

The outlook for the Company's cargo operations is favourable, with strong exports and imports being projected in the coming months. Icelandair Group's charter operations are also showing success, although the overall aviation market is affected by the uncertainty surrounding the future of the B737 MAX aircraft.

As a result of the uncertainty regarding the suspension of the B737 MAX aircraft, the Company is unable to issue an EBITDA guidance at this time.

6.6 Consolidated statements of profit or loss

What follows is a comparison and discussion of the consolidated statements of profit or loss for the years 2016, 2017 and 2018 as well as the periods ended on 31 March 2019 and 2018 respectively.

Item 30. Consolidated statements of profit and loss

	2019	2018	2018	2017 Restated	2016
USD '000	01.01.-31.03. *Unaudited*	01.01.-31.03. *Unaudited*	01.01.-31.12. *Audited*	01.01.-31.12. *Audited*	01.01.-31.12. *Audited*
Operating income					
Transport revenue	167,473	173,134	1,093,314	1,050,101	947,823
Aircraft and aircrew lease	25,120	33,394	120,113	87,701	84,574
Other operating revenue	56,009	61,091	297,091	280,185	253,177
	248,602	**267,619**	**1,510,518**	**1,417,987**	**1,285,574**
Operating expenses					
Salaries and other personnel expenses	110,216	113,129	515,872	445,162	354,253
Aviation expenses	91,281	100,692	552,669	456,012	420,250
Other operating expenses	61,773	72,009	365,498	346,737	291,226
	263,270	**285,830**	**1,434,039**	**1,247,911**	**1,065,729**
Operating profit (loss) before depreciation and amortisation (EBITDA)	**(14,668)**	**(18,211)**	**76,479**	**170,076**	**219,845**
Depreciation and amortisation	(44,911)	(28,002)	(133,447)	(120,431)	(101,408)
Operating profit (EBIT)	**(59,579)**	**(46,213)**	**(56,968)**	**49,645**	**118,437**

Finance income	432	5,601	8,578	14,083	6,414
Finance costs	(9,726)	(4,193)	(21,172)	(15,678)	(5,697)
Net finance (costs) income	**(9,294)**	**1,408**	**(12,594)**	**(1,595)**	**717**
Share of profit of associates, net of tax	405	1,266	1,752	592	957
(Loss) profit before tax	**(68,468)**	**(43,539)**	**(67,810)**	**48,642**	**120,111**
Income tax	13,355	9,011	12,240	(11,104)	(31,043)
Total (Loss) profit for the period	**(55,113)**	**(34,528)**	**(55,570)**	**37,538**	**89,068**
(Loss) earnings in US cent per share	*(1.15)*	*(0.72)*	*(1.16)*	*0.75*	*1.79*

6.6.1 Statements of profit or loss for the three months ended 31 March 2019 and 2018 respectively

The Group's total operating income amounted to USD 248.6 million in the three-month period ended 31 March 2019 compared to USD 267.6 million in 2018, a 7.1% decrease. Transport revenue amounted to USD 167.5 million in 2019 compared to USD 173.1 million in 2018, a 3.3% decrease. Aircraft and aircrew lease income amounted to USD 25.1 million in 2019 compared to USD 33.4 million in 2018, a 24.8% decrease. Other operating revenue amounted to USD 56.0 million in 2019 compared to USD 61.1 million in 2018, an 8.3% decrease. Passenger numbers increased in all markets except the North-Atlantic market, where numbers declined by 2%. Average air fares declined between years in all markets. The decline in income was greatest in the North-Atlantic market and declined slightly in the home market as well but increased in the tourist market to Iceland. Passenger-related ancillary revenue increased by 8%. Income from aircraft and aircrew lease declined by 25% from last year, largely because of a reduction in the number of charter flight assignments and aircraft maintenance although the implementation of IFRS 16 accounts for about USD 2.3 million of the decline.

Total operating expenses amounted to USD 263.3 million in 2019, as compared to USD 285.8 million in 2018, a 7.9% decrease. Salaries and other related personnel expenses amounted to USD 110.2 million in 2019 compared to USD 113.1 million in 2018, a 2.6% decrease. The expansion in the Company's scope of operation increased wage costs, which was offset by positive exchange rate trends with the ISK being on average 16% weaker against the USD than in the first quarter of last year. Aviation expenses amounted to USD 91.3 million in 2019 compared to USD 100.7 million in 2018 a 9,3% decrease, by and large explained by the IFRS 16 implementation. Other operating expenses amounted to USD 61.8 million in 2019 compared to USD 72.0 million in 2018, a 14.2% decrease. The largest contributing factor is found in contracted services in tourism, which were reduced by USD 7.2 million as a result of changes in demand. This is reflected in the corresponding reduced income from tourism. Fuel expenses amounted to USD 51.8 million, up by 5% year-on-year. The Company's reported price of fuel for the quarter, taking hedging into account, was USD 628/ton on average, which corresponds to a 6% increase year-on-year.

EBITDA was negative by USD 14.7 million in Q1 2019 compared to negative USD 18.2 million in 2018, a 19.5% decrease. The results were impacted by low airfares in the operating markets, tough competition and higher costs, most significantly high fuel and carbon prices. Moreover, pilot training expenses in anticipation of six new B737 MAX aircraft being delivered in the first half of 2019 put their mark on the quarter's outcome. Finally, the Company estimates that the negative impact of the suspension of the B737 MAX aircraft amounts to USD 3 million during the quarter.

Depreciation of operating assets amounted to USD 44.9 million in Q1 2019 compared to USD 28.0 million in 2018, a 60.4% increase. The increase is largely a result of the IFRS 16 implementation.

Net finance costs totalled USD 9.3 million in the period compared to USD 1.4 million in 2018, a 760.1% increase. The difference is related to IFRS 16 as well as increased overall leverage. Finance costs amounted to USD 9.7 million in 2019 compared to USD 4.2 million in 2018, a 130.9% increase. Finance income amounted USD 0.4 million in Q1 2019 compared to USD 5.6 million last year, a 93.1% decrease that stems from IFRS 16 accounting treatment of sale and leaseback agreements as well as substantially lower currency gains YoY.

Net loss amounted to USD 55.1 million for the period ended 31 March 2019 compared to a loss of USD 34.5 million in the same period 2018.

6.6.2 Statements of profit or loss for the year 2018 compared to 2017

The Group's total operating income amounted to USD 1,510.5 million in 2018 compared to USD 1,418.0 million in 2017, a 6.5% increase YoY. Transport revenue amounted to USD 1,093.3 million in 2018 compared to USD 1,050.1 million in 2017, a 4.1% increase YoY. Aircraft and aircrew lease income amounted to USD 120.1 million in 2018 compared to USD 87.7 million in 2017, a 37.0% increase. Other operating revenue amounted to USD 297.1 million in 2018 compared to USD 280.2 million in 2017, a 6.0% increase YoY. Passenger revenues increased in all markets in the Route Network, with the greatest increase in the home market from Iceland. Passenger-related ancillary revenue increased significantly, or by 67% over the year as the Company focused on increasing this revenue. Revenue from aircraft and aircrew lease increased due to increased scope of the charter business. The largest difference in other revenue was in sale at airports and hotels due to larger scope of business. Revenue from tourism decreased between years, due to changes in demand.

Operating expenses amounted to USD 1,434.0 million in 2018, as compared to USD 1,247.9 million in 2017, a 14.9% increase YoY. Salaries and other related personnel expenses amounted to USD 515.9 million in 2018 compared to USD 445.2 million in 2017, a 15.9% increase YoY. Aviation expenses amounted to USD 552.7 million in 2018 compared to USD 456.0 million in 2017, a 21,2% increase YoY. Other operating expenses amounted to USD 365.5 million in 2018 compared to USD 346.7 million in 2017, 5.4% increase. The increase is mainly due to larger scope of business and higher costs, mainly higher fuel cost and carbon emissions and higher salaries due to contractual wage increases. Moreover, cost related to customer services increased mainly as a result of disruption in the flight schedule in the High Season. Tourism expenses decreased on the other hand due to changes in demand.

EBITDA amounted to USD 76.5 million in 2018 compared USD 170.1 million in 2017, a 55.0% decrease YoY. The results were affected by low airfares in the operating markets, higher costs, most significantly high fuel and carbon prices and high irregular operations costs during the High Season. In addition, the structural changes that were made within the Company's sales and marketing department in the summer of 2017 were not implemented well enough resulting in suffering in sales. Finally, changes made to the Company's Route Network at the beginning of the year resulted in an imbalance between European and North American flights. Negative one-time-impact on EBITDA in relation to those latter factors is estimated USD 50-80 million.

Depreciation of operating assets amounted to USD 129.8 million in 2018 compared to USD 118.1 million in 2017, a 9.9% increase YoY. Amortisation of intangible assets amounted USD 3.7 million in 2018 compared to USD 2.4 million in 2017, a 54.1% increase YoY. No impairments were recognised in 2018 and 2017.

Net finance costs totalled USD 12.6 million in 2018 compared to USD 1.6 million in 2017, a 689.6% increase YoY. The difference is due to higher level of debt financing in relation to aircraft renewal. Finance costs amounted to USD 21.2 million in 2018 compared to USD 15.7 million in 2017, a 35.0% increase YoY. Interest income amounted USD 2.9 million in 2018 compared to USD 3.8 million in 2017, a 23.7% decrease YoY. Currency exchange gain resulting from the position of financial assets and liabilities amounted to USD 5.7 million in 2018 compared to USD 10.3 million in 2017, a 44.7% decrease YoY.

Net loss amounted to USD 55.6 million in 2018 compared to a net profit of USD 37.5 million in 2017.

6.6.3 Statements of profit or loss for the year 2017 compared to 2016[37]

The Group's total operating income amounted to USD 1,418.0 million in 2017 compared to USD 1,285.6 million in 2016, a 10.3% increase YoY. Transport revenue amounted to USD 1,050.1 million in 2017 compared to USD 947.8 million in 2016, a 10.8% increase YoY. Aircraft and aircrew lease income amounted to USD 87.7 million in 2017 compared to USD 84.6 million in 2016, a 3.7% increase YoY. Other operating revenue amounted to USD 280.2 million in 2017 compared to USD 253.2 million in 2016, a 10.7% increase YoY. The revenue growth is largely explained by an increased number of passengers on international flights, up 10.1% to surpass 4 million during 2017, increase in tourist revenue and increased sales at airports and hotels.

Operating expenses amounted to USD 1,247.9 million in 2017, as compared to USD 1,065.7 million in 2016, a 17.1% increase YoY. Salaries and other related personnel expenses amounted to USD 445.2 million in 2017 compared to USD 354.3 million in 2016, a 25.7% increase YoY. Aviation expenses amounted to USD 456.0 million in 2017 compared to USD 420.3 million in 2016, an 8.5% increase YoY. Other operating expenses amounted to USD 346.7 million in 2017 compared to USD 291.2 million in 2016, an 19.1% increase YoY. The increase in operating expenses is largely explained by the expanded scope of the Group's business, contractual wage increases that were exacerbated by the strengthening of the ISK against the USD (the Company's wage costs are virtually entirely in ISK) and higher fuel cost.

EBITDA amounted to USD 170.1 million in 2017 compared to USD 219.8 million in 2016, a decrease of 22.6% YoY. The principal reason for the deviation are falling contribution ratios as a result of increased expenses, which were not reflected in an equal increase in revenues because of the downward pressure on average airfares in the Company's markets, In addition, currency trends did not favour the Company, as about 22% of the Company's revenues are in ISK, as compared to 42% of its expenses.

Depreciation of operating assets amounted to USD 118.1 million in 2017 compared to USD 99.2 million in 2016, an increase of 19.1% YoY. Amortisation of intangible assets amounted to

[37] The Company implemented IFRS 15 effective 1 January 2017. Figures for 2016 have not been restated. Investors are advised to bear this in mind when making the comparison.

USD 2.4 million in 2017 compared to USD 2.3 million in 2016, a 4.3% increase YoY. No impairments were made in 2017 and 2016.

Net finance expenses totalled USD 1.6 million in 2017 compared to a net finance income of USD 0.7 million in 2016. Finance costs amounted to USD 15.7 million in 2017 compared to USD 5.7 million in 2016, a 175.4% increase YoY mainly due to a bond issuance in October 2016 and February 2017. Interest income amounted USD 3.8 million in 2017 compared to USD 3.3 million in 2016, a 15.2% increase YoY. The currency exchange gain resulting from the position of financial assets and liabilities amounted to USD 10.3 million in 2017 compared to USD 3.1 million in 2016, an increase of 232.3% YoY.

Net profit amounted to USD 37.5 million in 2017 compared to USD 89.1 million in 2016, a 57.9% decrease YoY.

6.7 Consolidated statements of financial position

Following is a comparison and discussion of the consolidated statements of financial position for the years 2016, 2017 and 2018 as well as the periods ended 31 March 2019 and 2018 respectively.

Item 31. Consolidated statements of financial position

	2019	2018	2018	2017 Restated	2016
USD '000	31.03. *Unaudited*	31.03. *Unaudited*	31.12. *Audited*	31.12. *Audited*	31.12. *Audited*
Assets					
Operating assets	666,019	775,018	673,420	652,705	602,615
Right-of-use assets	168,203	0	0	0	0
Intangible assets and goodwill	176,163	178,403	177,568	180,422	174,704
Investments in associates	27,204	31,923	26,134	29,629	23,497
Deferred cost	0	0	91	0	63
Receivables and deposits	31,139	50,461	17,365	97,030	74,098
Non-current assets	**1,068,728**	**1,035,805**	**894,578**	**959,786**	**874,977**
Inventories	29,581	28,725	25,951	26,801	23,963
Derivatives used for hedging	859	27,719	666	18,450	20,560
Trade and other receivables	187,882	281,597	118,298	186,027	118,720
Assets classified as held for sale	306,185	7,500	125,169	7,500	4,148
Short term investments	0	14,559	0	4,087	23,236
Cash and cash equivalents	289,020	191,257	299,460	221,191	226,889
Current assets	**813,527**	**551,357**	**569,544**	**464,056**	**417,516**
Total assets	**1,882,255**	**1,587,162**	**1,464,122**	**1,423,842**	**1,292,493**
Equity					
Share capital	39,053	39,053	39,053	39,532	40,576
Share premium	133,513	133,513	133,513	140,519	154,705
Reserves	34,056	96,515	26,262	127,407	114,849
Retained earnings	217,622	284,522	271,034	287,749	257,696
Non-controlling interests	1,561	1,258	1,517	1,338	387
Total equity	**425,805**	**554,861**	**471,379**	**596,545**	**568,213**

Liabilities					
Loans and borrowings	207,732	281,206	147,513	280,254	196,722
Lease liabilities	166,786	0	0	0	0
Payables	5,125	16,402	14,554	17,239	13,289
Deferred tax liabilities	22,808	52,784	32,868	60,885	58,179
Non-current liabilities	**402,451**	**350,392**	**194,935**	**358,378**	**268,190**
Loans and borrowings	183,293	48,692	268,288	9,287	45,660
Lease liabilities	36,855	0	0	0	0
Derivatives used for hedging	14,521	645	39,660	1,383	436
Liabilities classified as held for sale	238,125	0	52,244	0	0
Trade and other payables	225,845	256,051	222,766	232,188	210,107
Deferred income	355,360	376,521	214,850	226,061	199,887
Current liabilities	**1,053,999**	**681,909**	**797,808**	**468,919**	**456,090**
Total liabilities	**1,456,450**	**1,032,301**	**992,743**	**827,297**	**724,280**
Total equity and liabilities	**1,882,255**	**1,587,162**	**1,464,122**	**1,423,842**	**1,292,493**

6.7.1 Financial position as at 31 March 2019 and year-end 2018 respectively

Assets

Icelandair Group's assets totalled USD 1,882.3 million at 31 March 2019. Non-current assets increased by USD 174.2 million, and current assets increased by USD 244 million compared to year-end 2018. The changes are mainly linked to the implementation of IFRS 16.

Non-current assets

The Company's non-current assets mainly consist of aircraft and flight equipment, buildings, intangible assets and goodwill, pre-payments on aircraft purchases and other property and equipment. Total non-current assets amounted to USD 1,068.7 million at 31 March 2019 compared to USD 894.6 million at 31 December 2018, a 19.5% increase. The increase is largely explained by the right-of-use assets, now capitalised due to IFRS 16.

Operating assets amounted to USD 666.0 million at 31 March 2019 compared to USD 673.4 million at 31 December 2018, a 1.1% decrease. Operating assets consist of aircraft and aircraft components, overhaul of own engines, buildings and other property and equipment.

Right-of-use assets amounted to USD 168.2 million. A right-of-use asset is a lessee's right to use an asset over the life of a lease and is an accounting practice in IFRS 16 that was not in effect during Q1 2018.

Intangible assets and goodwill amounted to USD 176.2 million at 31 March 2019, compared to USD 177.6 million at 31 December 2018, a 0.8% decrease.

Investments in associates amounted to USD 27.2 million at 31 March 2019 compared to USD 26.1 million at 31 December 2018.

Non-current receivables and deposits were USD 31.1 million at 31 March 2019 compared to USD 17.4 million at 31 December 2018, an increase of 79.3%. The increase is largely explained by different treatment of receivables relating to lease liabilities under IFRS 16.

Current assets

The Company's current assets were USD 813.5 million at 31 March 2019 compared to USD 569.5 million at 31 December 2018, an increase of 42.8% in the period. The largest contributing factors are impacts of IFRS 16 and subsidiary Iceland Travel being reclassified as held for sale

Inventories amounted to USD 29.6 million at 31 March 2019 compared to USD 26.0 million at 31 December 2018, an increase of 14.0%.

Derivatives used for hedging were USD 0.9 million at 31 March 2019 compared to USD 0.7 million at 31 December 2018, an increase of 29.0%.

Trade and other receivables amounted to USD 187.9 million at 31 March 2019 compared to USD 118.3 million at 31 December 2018, an increase of 58.8%. The increase is largely due to IFRS 16.

Assets held for sale amounted to USD 306.2 million at 31 March 2019 compared to USD 125.2 million at 31 December 2018. The difference is due to subsidiary Iceland Travel being re-classified as held for sale as of 31 March 2019.

Cash and cash equivalents amounted to USD 289.0 million at 31 March 2019 compared to USD 299.5 million at 31 December 2018.

Equity

The Company's total equity amounted to USD 425.8 million at 31 March 2019 compared to USD 471.4 million at 31 December 2018, a 9.7% decrease between years. The decrease is largely explained by loss for the year and changes in fair value of cash flow hedges. The Company purchased no treasury shares and paid no a dividend in the period.

Liabilities

The Company's total liabilities amounted to USD 1,456.5 million at 31 March 2019 compared to USD 992.7 million at 31 December 2018, a 46.7% increase. The increase is mainly due to IFRS 16.

Non-current liabilities

Total non-current liabilities amounted to USD 402.5 million at 31 March 2019 compared to USD 194.9 million at 31 December 2018, an 106.5% increase. The difference is largely due to new bank loans and lease liabilities being reported on balance sheet due to IFRS 16.

Loans and borrowings amounted to USD 207.7 million at 31 March 2019 compared to USD 147.5 million at 31 December 2018, a 40.8% increase. The difference is due to new bank loans.

Lease liabilities amounted to USD 166.8 million at 31 March 2019. These were not reported on balance sheet prior to the implementation of IFRS 16 as of 1 January 2019.

Payables amounted to USD 5.1 million at 31 March 2019 compared to USD 14.6 million at 31 December 2018, a 64.8% decrease. The decrease is largely explained by different accounting treatment of lease liabilities under IFRS 16.

Deferred tax liabilities amounted to USD 22.8 million at 31 March 2019 compared to USD 32.9 million at 31 December 2018, a 30.6% decrease that is due to operating loss in Q1 2019.

Current liabilities

Total current liabilities amounted to USD 1,054.0 million at 31 March 2019 compared to USD 797.8 million at 31 December 2018, a 32.1% increase. The Company's current liabilities consist of loans

and borrowings, lease liabilities, derivatives used for hedging, trade and other payables and deferred income.

Loans and borrowings decreased by USD 85.0 million, from USD 268.3 million to USD 183.3 million. The decrease is largely due to a redemption of the Company's issued bond classes.

Lease liabilities amounted to USD 36.9 million at 31 March 2019. These were not reported on balance sheet prior to the implementation of IFRS 16 as of 1 January 2019.

Derivatives used for hedging amounted to USD 14.5 million at 31 March 2019, from USD 36.6 million 31 December 2018, a decrease of 63.4%. The difference is due to fluctuations in fuel prices.

Liabilities classified as held for sale were 238.1 million at 31 March 2019 compared to USD 52.2 31 December 2018, an increase of 355.8%. The increase is due to subsidiary Iceland Travel being reclassified as held for sale as of Q1 2019 as well as changes relating to IFRS 16.

Trade and other payables were USD 225.8 million at 31 March 2019 compared to USD 222.8 million at 31 December 2018, an 1.4% increase.

Deferred income amounted to USD 355.4 million at 31 March 2019 compared to USD 214.9 million at 31 December 2018, an 65.4% increase.

6.7.2 Financial position as at 31 December 2018 and 2017 respectively

Assets

Icelandair Group's assets totalled USD 1,464.1 million at year-end 2018. Non-current assets decreased by USD 65.2 million, and current assets increased by USD 105.5 million. Main reason for the deviation is a shift of operating assets among non-current assets to assets held for sale among current assets as the Company decided to divest itself of its investments in tourism.

Non-current assets

The Company's non-current assets mainly consist of aircraft and flight equipment, buildings, intangible assets and goodwill, prepayments on aircraft purchases and other property and equipment. Total non-current assets amounted to USD 894.6 million at 31 December 2018 compared to USD 959.8 million at 31 December 2017, a 6.8% decrease YoY. The decrease is largely explained by the decrease in non-current receivables and deposits.

Operating assets amounted to USD 673.4 million at 31 December 2018 compared to USD 652.7 million at 31 December 2017, an 3.2% increase between years. Operating assets consist of aircraft and aircraft components, overhaul of own engines, buildings and other property and equipment. The changes are mostly explained by acquisition of aircraft and aircraft components in the amount of USD 190 million and overhaul of own engines in the amount of USD 82.2 million.

Intangible assets and goodwill amounted to USD 177.6 million is at 31 December 2018, which are specified as goodwill USD 140.4 million, Trademarks and slots USD 33.4 million and other intangibles USD 3.8 million, compared to USD 180.4 million at 31 December 2017. Amortisation of intangible assets totaled USD 3.7 million, up by USD 1.3 million from 2017. No impairments were made in 2018. The YoY decrease in the carrying amount of goodwill is due to translation differences of subsidiaries with functional currencies other than USD.

Investments in associates amounted to USD 26.1 million at 31 December 2018 compared to USD 29.6 million at 31 December 2017.

Non-current receivables and deposits were USD 17.4 million at 31 December 2018 compared to USD 97.0 million at 31 December 2017, a decrease of 82.1%. The decrease is largely explained by lower contractual repayments.

Current assets

The Company's current assets were USD 569.5 million at 31 December 2018 compared to USD 464.1 million at 31 December 2017, an increase of 22.7% between years. The difference is largely explained by the subsidiary Icelandair Hotels being classified as held for sale as of 2018.

Inventories were USD 26.0 million at 31 December 2018 compared to USD 26.8 million at 31 December 2017, a decrease of 3.2%.

Derivatives used for hedging were USD 0.7 million at 31 December 2018 compared to USD 18.4 million at 31 December 2017, a decrease of 96.4%.

Trade and other receivables amounted to USD 118.3 million at 31 December 2018 compared to USD 186.0 million at 31 December 2017, a decrease of 36.4% YoY. The decrease in largely explained by lower trade receivables between years and decrease in current maturities of long term-receivables due to refinancing of prepayments made on new aircraft.

Assets held for sale amounted to USD 125.2 million at 31 December 2018 compared to USD 7.5 million at 31 December 2017. The difference is due to subsidiary Icelandair Hotels being classified as held for sale as of 2018.

Short-term investments at year-end 2017 amounted to USD 4.1 million and consisted of short-term securities listed on stock exchanges in Iceland and fixed deposits. There were no other investments at year-end 2018.

Cash and cash equivalents amounted to USD 299.5 million at 31 December 2018 compared to USD 221.2 million at 31 December 2017.

Equity

The Company's total equity amounted to USD 471.4 million at 31 December 2018 compared to USD 596.5 million at 31 December 2017, a 21.0% decrease between years. The decrease is largely explained by loss for the year and changes in fair value of cash flow hedges. The Company purchased treasury shares for USD 7.5 million and a dividend amounting to USD 7.2 million was paid to shareholders in 2018.

Liabilities

The Company's total liabilities amounted to USD 992.7 million at 31 December 2018 compared to USD 827.3 million at 31 December 2017, a 20.0% increase YoY. The increase is mainly due to an increase in secured bank loans.

Non-current liabilities

Total non-current liabilities were USD 194.9 million at 31 December 2018 compared to USD 358.4 million at 31 December 2017, a 45.6% decrease YoY. The difference is largely due to unsecured bonds in the amount of USD 212.7 million being re-categorised as short-term financing and lower deferred tax liabilities between years.

Loans and borrowings amounted to USD 147.5 million at 31 December 2018 compared to USD 280.3 million at 31 December 2017, a 47.4% decrease YoY. The difference is made up of the re-categorization of unsecured bonds and new secured bank loans.

Payables were USD 14.6 million at 31 December 2018 compared to USD 17.3 million at 31 December 2017, a 15.6% decrease YoY.

Deferred tax liabilities amounted to USD 32.9 million at 31 December 2018 compared to USD 60.9 million at 31 December 2017, a 46.0% decrease YoY.

Current liabilities

Total current liabilities amounted to USD 797.8 million at 31 December 2018 compared to USD 468.9 million at 31 December 2017, a 70.1% increase between years. The Company's current liabilities consist of loans and borrowings, derivatives used for hedging, trade and other payables and deferred income.

Loans and borrowings increased by USD 259.0 million YoY, from USD 9.3 million to USD 268.3 million. The increase is largely due to a re-categorization of USD 212.7 million in unsecured bonds from non-current to current liabilites.

Trade and other payables were USD 222.8 million at 31 December 2018 compared to USD 232.2 million at 31 December 2017, a 4.1% decrease YoY.

Deferred income amounted to USD 214.9 million at 31 December 2018 compared to USD 226.1 million at 31 December 2017, a 5.0% decrease YoY.

6.7.3 Financial position as at 31 December 2017 and 2016 respectively

Assets

The Company's total assets amounted to USD 1,423.8 million at 31 December 2017 compared to USD 1,292.5 million at 31 December 2016. The increase, 10.2% YoY, is explained by investments in operating assets and increase in trade and other receivabels.

Non-current assets

The Company's non-current assets mainly consist of aircraft and flight equipment, buildings, intangible assets and goodwill, prepayments on aircraft purchases and other property and equipment. Total non-current assets amounted to USD 959.8 million at 31 December 2017 compared to USD 875.0 million at 31 December 2016, a 9.7% increase YoY. The increase is largely explained by acquisition of operating assets and prepayments on aircraft purchases.

Operating assets amounted to USD 652.7 million at 31 December 2017 compared to USD 602.6 million at 31 December 2016, an 8.3% increase between years. Operating assets consist of aircraft and flight equipment, buildings and other property and equipment. The changes are mostly explained by investment in aircraft, aircraft components and engine overhauls of own aircraft. Other investments included a flight simulator, an aircraft hangar at Keflavik Airport and the Company's hotel operations.

Intangible assets and goodwill amounted to USD 180.4 million at 31 December 2017, which are specified as goodwill USD 141.1 million, trademarks and slots USD 33.4 million and other intangibles USD 5.9 million, compared to USD 174.7 million at 31 December 2016. Amortisation of intangible assets totalled USD 2.4 million, up by USD 0.1 million from 2016.

No impairments were made in 2017. The YoY increase in the carrying amount of goodwill is due to translation differences of subsidiaries with functional currencies other than USD.

Investments in associates amounted to USD 29.6 million at 31 December 2017 compared to USD 23.5 million at 31 December 2016.

Receivables and deposits amounted to USD 97.0 million at 31 December 2017 compared to USD 74.1 million at 31 December 2016, an increase of 30.9%. The increase is largely explained by prepayments on aircraft purchases.

Current assets

The Company's current assets amounted to USD 464.1 million at 31 December 2017 compared to USD 417.5 million at 31 December 2016, a 11.1% increase. The difference is largely explained by an increase in trade and other receivables by USD 67.3 million YoY.

Inventories amounted to USD 26.8 million at 31 December 2017 compared to USD 24.0 million at 31 December 2016, an increase of 11.8%.

Derivatives used for hedging amounted to USD 18.5 million at 31 December 2017 compared to USD 20.6 million at 31 December 2016, a decrease of 10.3%.

Trade and other receivables were USD 186.0 million at 31 December 2017 compared to USD 118.7 million at 31 December 2016, an increase of 56.7%. Mainly due to financing activities of aircraft.

Assets held for sale amounted to USD 7.5 million at 31 December 2017 compared to USD 4.1 million at 31 December 2016.

Short-term investments amounted to USD 4.1 million at 31 December 2017 compared to USD 23.2 million at 31 December 2016, an 82.4% decrease between years.

Cash and cash equivalents amounted to USD 221.2 million at 31 December 2017 compared to USD 226.9 million at 31 December 2016.

Equity

The Company's total equity amounted to USD 596.5 million at 31 December 2017 compared to USD 568.2 million at 31 December 2016, a 5.0% increase between years. The Company purchased treasury shares for USD 15.2 million and a dividend amounting to USD 5.0 million was paid to shareholders in 2017.

Liabilities

The Company's total liabilities amounted to USD 827.3 million at 31 December 2017 compared to USD 724.3 million at 31 December 2016, a 14.2% increase YoY. The difference is explained by new borrowings, among them an unsecured bond issuance in February 2017.

Non-current liabilities

Total non-current liabilities amounted to USD 358.4 million at 31 December 2017 compared to USD 268.2 million at 31 December 2016, a 33.6% increase YoY. Loans and borrowings increased by USD 83.5 million YoY in part by USD 40 million tap issue of bonds.

Payables were USD 17.2 million at 31 December 2017 compared to USD 13.3 million at 31 December 2016, a 29.7% increase YoY due to larger scope of business.

Deferred tax liabilities amounted to USD 60.9 million at 31 December 2017 compared to USD 58.2 million at 31 December 2016.

Current liabilities

Total current liabilities amounted to USD 468.9 million at 31 December 2017 compared to USD 456.1 million at 31 December 2016, a 2.8% increase between years. The Company's current liabilities consist of loans and borrowings, derivatives used for hedging, trade and other payables and deferred income.

Loans and borrowings lowered by USD 36.4 million YoY, from USD 45.7 million to USD 9.3 million due to repayments.

Trade and other payables amounted to USD 232.2 million at 31 December 2017 compared to USD 210.6 million at 31 December 2016, a 10.3% increase YoY due to larger scope of business and unfavourable exchange rate developments.

Deferred income amounted to USD 226.1 million at 31 December 2017 compared to USD 199.9 million at 31 December 2016, a 13.1% increase YoY.

6.8 Consolidated statements of cash flows

Following is a comparison and discussion of the consolidated statements of cash flows for the years 2018, 2017 and 2016 as well as the three-month periods ended 31 March 2019 and 2018 respectively.

Item 32. Consolidated statement of cash flows

	2019	2018	2018	2017 Restated	2016
USD '000	01.01.-31.03. *Unaudited*	01.01.-31.03. *Unaudited*	01.01.-31.12. *Audited*	01.01.-31.12. *Audited*	01.01.-31.12. *Audited*
Operating activities					
(Loss) profit for the period	(55,113)	(34,528)	(55,570)	37,538	89,068
Adjustments:					
Depreciation and amortisation	44,911	28,002	133,447	120,431	101,408
Expensed deferred cost	0	1,998	9,991	10,051	8,418
Net finance costs	9,294	(1,408)	12,594	1,595	(717)
Loss (gain) on sale of operating assets	(6,704)	(3,094)	(4,767)	264	(782)
Gain on sale of investments	0	0	(710)	0	(94)
Share in profit of associates	(405)	(1,266)	(1,752)	(592)	(957)
Income tax	(13,355)	(9,011)	(12,240)	11,104	31,043
Changes in:					
Inventories decrease (increase)	(3,630)	(1,924)	850	(2,838)	(3,800)
Trade and other receivables, (increase) decrease	(63,507)	(82,758)	(8,577)	10,400	(4,512)
Trade and other payables increase	26,308	25,083	29,077	15,816	226
Deferred income, (decrease) increase	140,510	150,460	(11,211)	25,225	13,815
Interest received	457	715	2,642	3,354	3,298
Interest paid	(5,825)	(5,154)	(23,546)	(16,618)	(5,267)
Income taxes paid	0	0	(8,675)	(10,127)	(22,123)
Net cash from operating activities	**72,941**	**67,115**	**61,553**	**205,603**	**209,024**

Investing activities					
Acquisition of operating assets	(172,077)	(136,982)	(263,900)	(149,213)	(231,117)
Proceeds from sale of operating assets	150,942	52,157	52,719	1,415	1,160
Acquisition of right-of-use assets	(8,468)	0	0	0	0
Acquisition of intangible assets	(1,032)	(664)	(2,749)	(5,661)	(1,603)
Capitalised deferred cost, change	0	(1,232)	(4,602)	(4,176)	(10,677)
Investment in subsidiaries and associates	(1,462)	0	0	(3,335)	(5,994)
Non-current receivables, change	(8,681)	(31,966)	88,546	(86,661)	(39,852)
Cash attributable to assets held for sale	(12,814)	0	(4,034)	0	0
Short term investments, change	0	(10,472)	4,087	19,212	(3,676)
Net cash used in investing activities	**(53,592)**	**(129,159)**	**(129,933)**	**(228,419)**	**(291,759)**
Financing activities					
Purchase of treasury shares	0	(7,483)	(7,485)	(15,230)	0
Dividend paid	0	0	(7,254)	(5,044)	(26,968)
Proceeds from non-current borrowing	79,799	0	143,424	45,384	150,700
Repayment of non-current borrowings	(88,940)	(2,664)	(18,783)	(10,556)	(10,089)
Repayment of lease debt	(6,451)	0	0	0	0
Proceeds from short term borrowings	(13,136)	40,949	39,434	0	0
Net cash from financing activities	**(28,728)**	**30,802**	**149,336**	**14,554**	**113,643**
Increase (decrease) in cash and cash equiv.	**(9,379)**	**(31,242)**	**80,965**	**(8,262)**	**30,908**
Effect of exchange rate fluctuations on cash held	**(1,061)**	**1,308**	**(2,687)**	**2,564**	**1,395**
Cash and cash equivalents at beginning of the period	299,460	221,191	221,191	226,889	194,586
Cash and cash equivalents at end of the period	289,020	191,257	299,460	221,191	226,889

6.8.1 Statements of cash flows for the three-month period ended 31 March 2019 and 2018 respectively

Net cash from operating activities amounted to USD 72.9 million in 2019 comparison to USD 67.1 million in 2018, an 8.7% increase between years.

Net cash used in investing activities amounted to USD 53.6 million in 2019 compared to USD 129.2 million in 2018, a 58.5% decrease between years. The decrease is to a large extent due to an increase in proceeds of sale of operating assets.

Net cash from financing activities was negative USD 28.7 million in 2019 compared to positive USD 30.8 million in 2018, a USD 59.5 million decrease between years. The Company repaid a total of USD 79 million to its bondholders as part of an amendment to the bonds' terms and conditions. New borrowings from an Icelandic financial institution amounted to USD 80.0 million.

Cash and cash equivalents amounted to USD 289.0 million at 2019 compared to USD 299.5 million at year-end 2018.

6.8.2 Statements of cash flows for the years ended 31 December 2018 and 2017 respectively

Net cash from operating activities amounted to USD 61.6 million in 2018 comparison to USD 205.6 million in 2017, an 70.1% decrease between years. The difference is mainly explained by a loss of USD 55.6 million in 2018 compared to a profit of USD 37.5 million in 2017.

Net cash used in investing activities amounted to USD 129.9 million in 2018 compared to USD 228.4 million in 2017, a 43.1% decrease between years. The decrease is to a large extent due to an increase in non-current receivables and proceeds from sale of operating assets.

Net cash from financing activities was USD 149.3 million in 2018 compared to USD 14.6 million in 2017, a USD 134.8 million increase between years. The Company paid dividend in the amount of USD 7.2 million, purchased treasury shares in the amount of USD 7.5 million, repaid USD 18.8 million of debt and had proceeds from loans and borrowings in the amount of USD 143.4 million.

Cash and cash equivalents amounted to USD 299.5 million at 31 December 2018 compared to USD 221.2 million at 31 December 2017.

6.8.3 Statements of cash flows for the years ended 31 December 2017 and 2016 respectively

Net cash from operating activities amounted to USD 205.6 million in 2017 compared to USD 209.0 million in 2016, a 1.6% decrease between years. The difference is mainly explained by a decrease in profits.

Net cash used in investing activities amounted to USD 228.4 million in 2017 compared to USD 291.8 million in 2016, a 21.7% decrease between years. The decrease is to a large extent due to a decrease in acquisition of intangible assets.

Net cash from financing activities was USD 14.6 million in 2017 compared to USD 113.6 million in 2016, an 87.2% decrease between years. The Company paid dividend in the amount of USD 5.0 million, purchased treasury shares in the amount of USD 15.2 million, repaid USD 10.6 million of debt and had proceeds from loans and borrowings in the amount of USD 45.4.

Cash and cash equivalents amounted to USD 221.2 million at 31 December 2017 compared to USD 226.8 million at 31 December 2016.

6.9 Statement of changes in equity

The table below shows changes in equity between 31 December 2018, 2017 and 2016 respectively as well as from 31 December 2018 until 31 March 2019.

Item 33. Consolidated statement of changes in equity

USD '000	Share capital	Share premium	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
2016							
Balance at 1 January 2016	40,576	154,705	1,400	259,746	456,427	104	456,531
Total comprehensive income			49,547	88,820	138,367	283	138,650
Effects of profit or loss and dividend from subsidiaries			63,902	(63,902)			
Dividend (USD 0.54 cent per share)				(26,968)	(26,968)		(26,968)
Balance at 31 December 2016	**40,576**	**154,705**	**114,849**	**257,696**	**567,826**	**387**	**568,213**
2017							
Balance at 1 January 2017	40,576	154,705	114,849	257,696	567,826	387	568,213
Impact of IFRS 15 implementation				5,129	5,129		5,129
Purchase of treasury shares	(1,044)	(14,186)			(15,230)		(15,230)
Total comprehensive income			5,207	37,438	42,526	951	43,477
Effects of profit or loss and dividend from subsidiaries			7,351	(7,351)			
Dividend (USD 0.10 cent per share)				(5,044)	(5,044)		(5,044)
Balance at 31 December 2017	**39,532**	**140,519**	**127,407**	**287,749**	**595,207**	**1,338**	**596,545**
2018							
Balance at 1 January 2018	39,532	140,519	127,407	282,739	590,197	1,338	591,535
Impact of IFRS 15 implementation				5,010	5,010		5,010
Purchase of treasury shares	(479)	(7,006)			(7,485)		(7,458)
Total comprehensive loss			(54,790)	(55,816)	(110,606)	179	(110,427)
Effects of profit or loss and dividend from subsidiaries			(46,355)	46,355			
Dividend (USD 0.15 cent per share)				(7,254)	(7,254)		(7,254)
Balance at 31 December 2018	**39,053**	**133,513**	**26,262**	**271,034**	**469,862**	**1,517**	**471,379**
2019							
Balance at 1 January 2019	39,053	133,513	26,262	271,034	469,862	1,517	471,379
Total comprehensive loss			9,578	(55,196)	(45,618)	44	(45,574)
Effects of profit or loss and dividend from subsidiaries			(1,784)	1,784			
Balance at 31 March 2019	**39,053**	**133,513**	**34,056**	**217,622**	**424,244**	**1,561**	**425,805**

The Company's total equity at 31 March 2019 amounted to USD 425.8 million compared to USD 471.4 million at year-end 2018, USD 596.5 million at year-end 2017 and USD 568.2 million at year-end 2016.

6.10 Operating Assets

The Company's operating assets are divided into Aircraft and flight equipment, Buildings and Other property and equipment. The carrying amount of Icelandair Group's operating assets at 31 December was USD 673.4 million specified as follows:

Item 34. Operating assets as at 31 December 2018

USD '000	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Cost				
Balance at 31 December 2017	666,867	173,791	117,827	958,485
Additions	272,407	25,434	26,236	324,077
Sales and disposals	(138,236)	(584)	(6,719)	(145,539)
Reclassification	(977)	0	0	(977)
Assets classified as held for sale	0	(82,949)	(42,474)	(125,423)
Effects of movements in exchange rates	(921)	(19,388)	(6,136)	(26,445)
Balance at 31 December 2018	799,140	96,304	88,734	984,178
Depreciation and impairment losses				
Balance at 31 December 2017	243,730	19,626	42,424	305,780
Depreciation	111,654	5,538	12,600	129,792
Sales and disposals	(89,038)	(539)	(6,695)	(96,272)
Assets classified as held for sale	0	(4,873)	(18,060)	(22,933)
Effects of movements in exchange rates	(191)	(2,572)	(2,846)	(5,609)
Balance at 31 December 2018	266,155	17,180	27,423	310,758
Carrying amounts at 31 December 2018	**532,985**	**79,124**	**61,311**	**673,420**

Aquisition of operating assets in the first three months of 2019 amounted to USD 172.1 million. Included are 3 B737 MAX aircraft, 2 B757 aircraft, overhaul of own engines and aircraft spare parts in the amount of USD 164.4 million. The total carrying amount of operating assets at 31 March 2019 was USD 666 million.

6.10.1 The Fleet

The largest part of the Company's operating assets consists of its fleet (including aircraft engines, flight equipment and aircraft spare parts) which comprised 52 aircraft, 50 passenger aircraft and 2 cargo aircraft at 31 March 2019 (see item 35). Thereof 41 aircraft were owned and 11 were held on operating leases. Of the 41 aircraft that the Company owns, 24 were unencumbered (icel: *óveðsettar*) at 31 March 2019[38].

The carrying amount of aircraft and flight equipment amounted to USD 533 million at 31 December 2018.

[38] In April 2019 the Company announced it had secured three aircraft on lease to have at its disposal through September 2019 to compensate for lost capacity due to the grounding of the B737 MAX model. These aircraft are not included in the discussion of the Company's fleet as they are temporary and not part of the Company's future plans.

Item 35. Icelandair Group fleet as at 31 March 2019

Aircraft type	ICELANDAIR	ICELANDAIR CARGO	LOFTLEIDIR ICELANDIC	Air Iceland Connect	Group fleet	Of which owned	Of which leased
B757-200	21	2	6		29	26	3
B757-300	2				2	2	
B737 MAX 8	5				5	2	3
B737 MAX 9	1				1		1
B767-300	4		2		6	5	1
B737-700			1		1		1
B737-800			2		2		2
Bombardier Q-200				3	3	3	
Bombardier Q-400				3	3	3	
Total	**33**	**2**	**11**	**6**	**52**	**41**	**11**

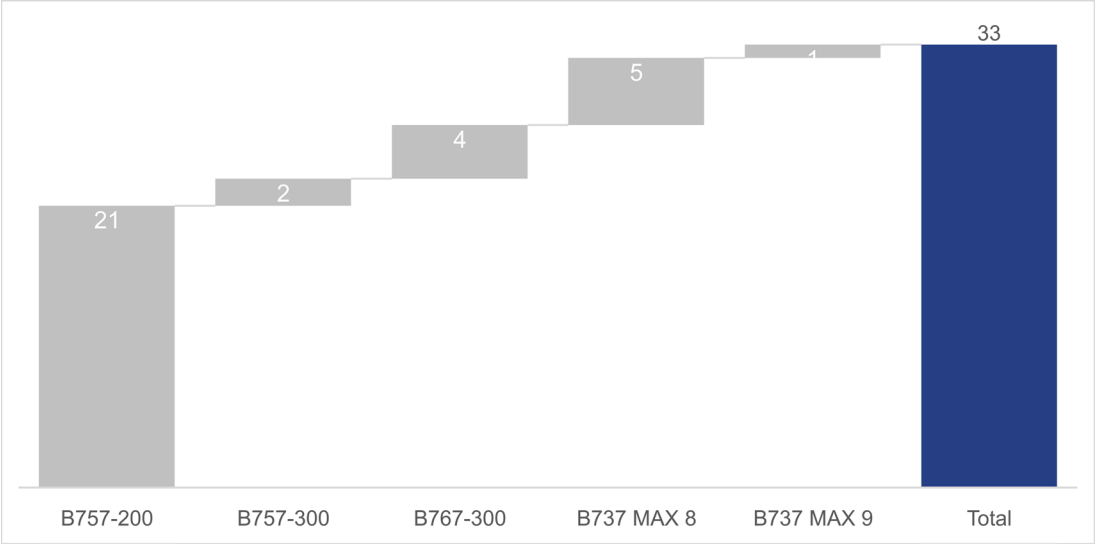
Since 2008 Icelandair's fleet has expanded from 10 Boeing 757-200 and a single 757-300 aircraft, to 22 757-200 and two 757-300 aircraft in 2019. Boeing 757-200 is a mid-size narrow body twin-engine jet aircraft, ideal for short to medium-haul routes. The Boeing 757-300 is a stretched version of the 757-200. The number of planned aircraft in the Airline's fleet in 2019 is 36 with an average age of 16.67 years. Thereof the average age of the Company's 21 Boeing 757-200 is 22.6 years.

In 2016 the Airline added B767-300 wide-body aircraft seating 262 passengers to the Route Network. The high passenger load factor on many of the Airline's routes year-round, in addition to limits on slot availability at some airports, made the introduction of larger aircraft a feasible option. These aircraft have greater range than the B757-200 aircraft and their introduction allow for new market opportunities. The planned number of B767-300 aircraft in the fleet in 2019 is four and their average age is 20.5 years.

The Airline's original 2013 order with Boeing comprised nine B737 MAX8 (seating capacity of 160) and seven B737 MAX9 aircraft (seating capacity of 178)[39] with an option to buy an additional eight aircraft. Of the sixteen ordered aircraft, the Airline has already received six B737 MAX aircraft, three in 2018 (all B737 MAX8) and three aircraft in the first quarter of 2019 (two B737 MAX8 and one B737 MAX9). The Airline remains to take delivery of one B737 MAX8 and two B737 MAX9 aircraft in 2019 but has requested a postponement of that delivery.

[39] In comparison, the Boeing 757-200 aircraft seats 183 passengers.

Item 36. Icelandair passenger aircraft fleet as at 31 March 2019



At the same time the Airline has retired three 757-200[40] from the Route Network[41]. For information on the delivery and financing of the new aircraft reference is made to Chapter 6.4.1 *Aircraft financing.* Overall, the net increase totals three aircraft and 465 seats[42]. The aircraft remaining on order are three B737 MAX8 aircraft and four B737 MAX9 aircraft, currently on schedule to be delivered in the first quarter of 2020 (5) and in the first quarter of 2021(2).

The B737 MAX aircraft are a new and improved version of the current Boeing 737. They are fitted with new and more efficient engines, which reduces fuel consumption by 27% per seat in comparison to the Boeing 757-200 aircraft.

The new aircraft will enlarge the fleet and improve both flexibility and the potential for further growth. They can fly to destinations in North America and Europe, opening new possibilities for increased flight frequency and an increased number of destinations, particularly in the wintertime, which will help even out the seasonal fluctuations in the Airline's operations.

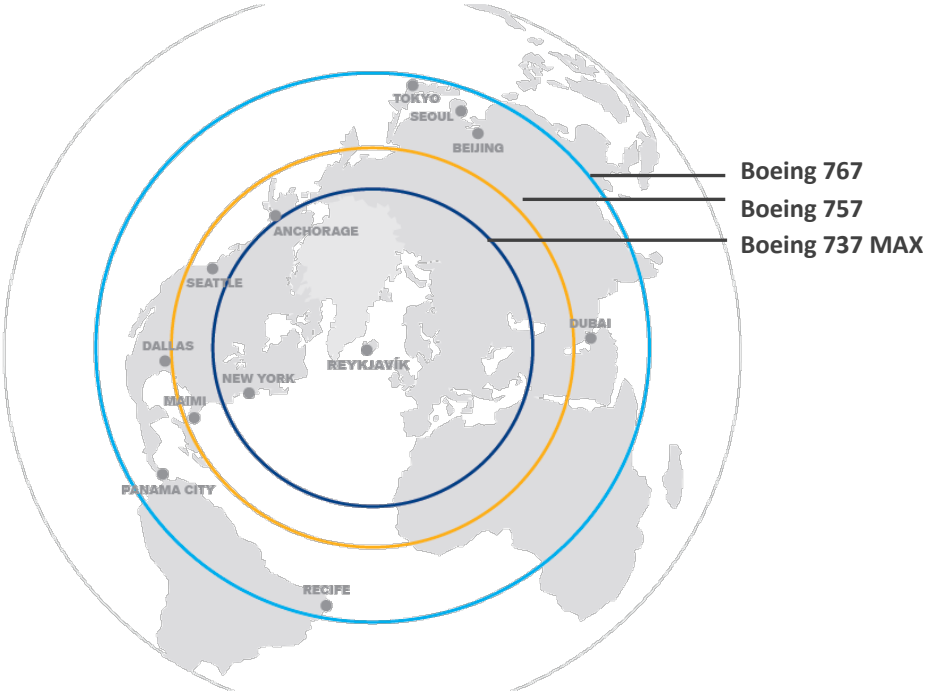
The Company's long-term fleet strategy is currently under review. The current fleet strategy assumes continued use of the Company's B757-200 aircraft alongside the B767-300 and B737 MAX aircraft through 2025. The B737 MAX aircraft are intended to support the growth of the fleet, balancing against the reduction in the number of B757-200 aircraft over the period. Three possible scenarios regarding the future composition the fleet are currently being evaluated. The review should be concluded before year-end 2019. In the event that the Company decides to add a new aircraft type, such as Airbus, to its fleet such an aircraft type would not start servicing the Company until the year 2021 the earliest. Introducing a new aircraft type would involve tasks including, but not limited to, pilot and cabin crew training, air mechanic training and updating operational and maintenance procedures. Any changes that may be decided as a result of the Company's review will be publicly announced if and when such a decision is made.

[40] One has already been retired and the two remaining ones have been assigned to leases with 3rd party airlines.
[41] Moreover the Company has secured temporary leases for three aircraft.
[42] Additionally three leased aircraft totalling 708 seats will be added from April – end of September to compensate for grounded B737 MAX aircraft.

Item 37. Scenarios for fleet renewal

Maintain current strategy	Expedited renewal of fleet	Airbus fleet
Retirement of B757 aircraft postponed until after 2025 Fleet mainly grown through introduction of B737 MAX aircraft Renewal of remaining B757 aircraft decided after 2020	A321neo LR[43] aircraft added to fleet Operated alongside MAX fleet	All B757 and MAX aircraft retired from the fleet over the next few years Future fleet consisting of all Airbus aircraft

Item 38. Flight range of Icelandair's aircraft



The focus of the Company's operations is to optimise the utility of its Route Network. Icelandair Cargo, a subsidiary of Icelandair makes use of freight transport in Icelandair's (and Air Iceland Connect's) passenger aircraft holds, contributing to the Route Network's efficiency and profitability. The introduction of Boeing 767-300 wide-body aircraft in Icelandair's fleet supports this trend and at the same time opens new opportunities. In addition to using the belly space in the passenger aircraft, the cargo operation has two Boeing 757-200 freighters in its exclusive service.

[43] A321neoLR is the Airbus 321 New Engine Option Long Range aircraft.

6.10.2 Buildings

At 31 December 2018, carrying amounts of the Company's buildings amounted to USD 79.1 million.

Item 39. Carrying amounts of buildings as at 31 December 2018

USD '000	Maintenance hangars	Hotels / staff apartm.	Office buildings	Other buildings	Under construction	Total
Official assessment value	32,773	10,155	25,314	12,262	177	**80,681**
Insurance value	65,649	14,030	52,299	23,194	7,018	**162,190**
Carrying amounts	31,152	6,163	24,197	12,225	5,387	**79,124**
Square meters	31,814	5,690	19,736	11,808	6,108	**75,156**

In 2018 hotel buildings both in operation and under construction were transferred to assets held for sale and are thus not represented here. The insurance value of assets held for sale amounted to USD 58.5 million at 31 December 2018, their tax base value amounted to USD 30.6 million and their carrying amount was USD 77.4 million.

6.10.3 Other property and equipment

The combined value of all other operating assets, excluding buildings, aircraft and flight equipment amounted to USD 61.3 million at 31 December 2018, with an insurance value amounting to USD 66.9 million.

6.10.4 Principal investments

The investments of Icelandair Group are mainly in aircraft, flight equipment and aircraft engines. They are presented at cost less accumulated depreciation and impairment losses. When an aircraft is acquired, the purchase price is divided between the aircraft itself and engines. Aircraft is depreciated over the estimated useful life of the relevant aircraft until a residual value is met. Engines are depreciated according to flown cycles. When an engine is overhauled, the cost of the overhaul is capitalised and the remainder of the cost of the previous overhaul that has not already been depreciated, if any, is expensed in full.

Item 40. Total investments in USD million in each period stated

Q1 2019

Investments over the period amounted to a total of USD 181.6 million. Investments in aircraft and flight equipment in the amount of USD 147.7 million include investments in two B737 MAX8 and one B737 MAX9 aircraft. Other investments in operating assets, for the most part investments in the enlargement of the flight kitchen at Keflavik Airport and the hotel operations, amounted to USD 6.2 million.

2018

Total investments in 2018 amounted to USD 336 million. Investments in operating assets amounted to USD 324.1 million. In 2018 three of the 737 MAX 8 aircraft were delivered. One of the aircraft was sold and leased back for a period just short of 9 years. The other two aircraft were financed through JOLCO financing. The financing of all aircraft was 100% on favourable terms. Investment in intangible assets amounted to USD 2.7 million.

The investments in 2018 were funded by a mix of aircraft financing, new loans and the Company's own funds.

2017

Total investments in 2017 amounted to USD 166.1 million the bulk of which was operating assets (USD 156.3 million). Thereof investments in aircraft and aircraft components totalled USD 34.8 million, while investments in engine overhauls on own aircraft totalled USD 54.6 million. Other investments amounted to USD 66.8 million, including investments in a flight simulator, an aircraft hangar at Keflavik Airport as well as the Group's former hotel business. Investments in long-term expenses amounted to USD 4.2 million. Investment in intangible assets, mainly IT, amounted to USD 5.7 million.

The investments in 2017 were funded by borrowings and the Company's own funds.

2016

Total investments in 2016 amounted to USD 243.4 million. Investments in operating assets amounted to USD 231.1 million. Thereof investments in aircraft and aircraft components totalled USD 107.1 million, while investments in engine overhauls on own aircraft totalled USD 70.6 million during the year. Investments in overhaul of leased engines amounted to USD 10.7 million. Investment in intangible assets amounted to USD 1.6 million.

The investments in 2016 were funded by a mix of aircraft financing, new loans and the Company's own funds.

Principal Investments in progress

The Group has an agreement with the Boeing Company regarding purchase of thirteen additional aircraft. In 2019, six B737MAX aircraft are to be delivered to the Company, five in 2020 and two in 2021, see Chapter 6.10.1 *The Fleet.*

The Company has concluded an agreement with BOC Aviation on the financing of pre-delivery payments on 11 Boeing MAX aircraft which are scheduled for delivery to the Company in 2019 (6 aircraft) and 2020 (5 aircraft). In all, the financing amounts to USD 200 million over the period. As a result of the agreement, the Company's cash position increased by USD 160 million at year-end 2018. This is due to Icelandair Group having already made the advance payments out if its own funds.

The Company has negotiated Sale-leaseback arrangements for seven Boeing 737 MAX aircraft that will be delivered in 2019-2020. This includes the six aircraft scheduled for delivery in 2019, and one of aircraft scheduled for delivery in 2020. The table below shows the status of financing for the 13 aircraft that the Company has on order as of year-end 2018.

Financing for the remaining six aircraft (four in 2020 and two in 2021) has not been finalised at the date of this Share Registration Document.

Item 41. Icelandair Group's investments in progress

Delivery	Financing	Type of financing	Lessor	No. of aircraft
2019	Completed	Sale and leaseback	BOC Aviation	1
2019	Completed	Sale and leaseback	SMBC Aviation Capital	2
2019	Completed	Sale and leaseback	BOCCOM Leasing Aviation	3
2020	Completed	Sale and leaseback	BOC Aviation	1
2020	Uncompleted	-	-	4
2021	Uncompleted	-	-	2
			TOTAL	**13**

07 SHARE CAPITAL AND SHAREHOLDERS

7.1 Share Capital

As of the date of this Share Registration Document, the nominal value of the share capital of Icelandair Group is ISK 5,437,660,653 divided into an equal number of Shares with a nominal value of one ISK each. Thereof 4,968,910,653 Shares have been fully paid with the remaining 468,750,000 scheduled for payment against delivery on 7 May 2019. Upon settlement all Shares will be a part of the share capital.

In accordance with the Public Companies Act the Company is authorised to own up to 10.0% of its own share capital. The authorisation of a shareholders' meeting to the Board of Directors is needed for the Company to acquire treasury Shares. Such an authorisation, if issued, can only be granted for a period of eighteen months at a time. The Company's AGM voted to authorise the Company to buy back up to 10% of its own Shares in the eighteen-month period following the date of the AGM which was 8 March 2019. No formal buy-back programme has been established as of the date of the Share Registration Document.

7.2 Shareholders

The 20 largest shareholders, shown in item 42 below, are listed as at close of business on 6 May on the one hand (pre-increase) and as expected on 8 May (post-increase) on the other, absent of other changes.

The Nasdaq CSD Iceland is expected to issue the New Shares electronically and transfer them to the buyer against payment of the outstanding purchase price amount on 7 May 2019. The trading of the New Shares is expected to commence on 8 May.

The Issuer declares that to the best of its knowledge the below listed are the rightful owners of the Company and that the Issuer is not aware that it is, whether directly or indirectly, under the control or influence of a party or parties other than those listed below.

The Company is not aware of any arrangements being in place that may at a subsequent date result in change of control of the Company.

Investors are advised to familiarise themselves with possible conflicts of interest regarding the Issuer in Chapters 2.1 *Potential Conflict of interest* and 8.3.2 *Statements and Potential Conflict of Interest* of this Share Registration Document. Chapters 8.2 *Members of the Board of Directors* and 8.3. *Executive Committee* further contains information on the shareholdings of the members of the Board of Directors as well as Executive Committee members and their related parties as relevant.

Item 42. 20 largest shareholders

Owner	Before increase		After increase	
	No. of shares	%	No. of shares	%
Lífeyrissjóður verslunarmanna	694,361,239	14.4	694,361,239	12.8
Par Investment Partners L.P.	-	-	625,000,000	11.5
Gildi - lífeyrissjóður	393,761,301	8.2	393,761,301	7.2
Birta lífeyrissjóður	368,988,795	7.7	368,988,795	6.8
Lífeyrissj.starfsm. rík. A-deild	344,840,000	7.2	344,840,000	6.3
Stefnir - ÍS 15	297,774,113	6.2	297,774,113	5.5
Stefnir - ÍS 5	284,163,903	5.9	284,163,903	5.2
Stapi lífeyrissjóður	153,105,201	3.2	153,105,201	2.8
Frjálsi lífeyrissjóðurinn	152,555,294	3.2	152,555,294	2.8
Landsbréf – Úrvalsbréf	120,848,096	2.5	120,848,096	2.2
Lífeyrissj.starfsm.rík. B-deild	114,682,600	2.4	114,682,600	2.1
Kvika Banki – Safnreikningur	97,647,382	2.0	97,647,382	1.8
Brú Lífeyrissjóður starfsm. sveitaf.	96,136,406	2.0	96,136,406	1.8
Almenni lífeyrissjóðurinn	83,378,324	1.7	83,378,324	1.5
Sólvöllur ehf.	60,073,240	1.2	60,073,240	1.1
Festa - lífeyrissjóður	56,606,538	1.2	56,606,538	1.0
Vænting ehf.	50,000,000	1.0	50,000,000	0.9
Stefnir - Samval	48,928,365	1.0	48,928,365	0.9
Söfnunarsjóður lífeyrisréttinda	48,158,780	1.0	48,158,780	0.9
Júpíter - Innlend hlutabréf	47,145,041	1.0	47,145,041	0.9
Lífeyrissjóður starfsm. RVK	43,078,781	0.9	-	-
20 largest shareholders	3,556,233,399	73.9	4,138,154,618	76.1
Other shareholders (3,163 / 3,164)	**1,256,427,254**	**26.1**	**1,299,506,035**	**23.9**
Total	**4,812,660,653**	**100.0**	**5,437,660,653**	**100.0**

7.2.1 Shareholders' rights and obligations

The Shares are all in one class and equal in all respects. Shareholders' rights are subject to the Company's Articles of Association and the relevant applicable laws at any given time. No special rights or privileges are attached to the Shares and all Shares are freely transferable. Shareholders will not be subject to redemption of their Shares unless stipulated by law. Changes in ownership of the Shares are governed by the provisions of Act No. 131/1997 on electronic registration of title to securities and any subsequent rules based thereon. For information on all other rights reference is made to Icelandair Group's Articles of Association, incorporated into this Share Registration Document by reference, as well as to the Public Companies Act.

Disputes arising regarding Shares in the Company shall be settled before the Reykjavik District Court as per Act No. 91/1991 on Civil Procedure.

7.2.2 Voting rights

Each Share carries one vote at shareholders' meetings, where matters are decided by simple majority unless otherwise prescribed by the Articles or law. No voting rights are attached to treasury Shares or Shares held by the Issuer's subsidiaries.

7.2.3 Increase / decrease of share capital

The increase of share capital can exclusively be decided by a shareholders' meeting and requires the same number of votes as do amendments to the Articles of Association. If share capital is increased existing shareholders enjoy pre-emptive rights to new Shares in proportion to their existing holdings, as prescribed by law at each given time. If a shareholder does not exercise his or her pre-emptive rights in full, other shareholders are entitled to increase their subscription rights. A shareholders' meeting's resolution is also needed to lower share capital and requires the same number of votes as do amendments to the Articles of Association.

7.2.4 Amendments to the Company's Articles of Association

The Company's Articles of Association can only be amended at lawful shareholders' meetings. Amendments are only valid if voted for by at least 2/3 of the total votes cast and have the support of shareholders controlling at least 2/3 of the share capital represented at the meeting. Amendments to articles stipulating voting rights and equal rights of shareholders demand the support of all shareholders as per Article 94 of the Public Companies Act.

7.2.5 Dividends

Icelandair Group's goal is to pay 20-40% of each year's net profit in dividends. Final annual dividend payments will be based on the financial position of the Company, operating capital requirements and market conditions. When forming their proposal, the Board takes into account and considers the risk policy in place, market conditions, the Company's liquidity needs, financial covenants, approved capex plans and other possible factors that might limit payments to shareholders at any given time. These considerations might affect the proposed amount of dividend and even lead to no dividend being proposed.

Item 43. Dividend payments 2016-2018

	2018	2017	2016
Dividend paid (USD '000)	7,254	5,044	26,968
Dividend paid (USD cent per share)	0.15	0.10	0.54

All shareholders hold equal rights to dividend payments. Dividend shall be decided at the Annual General Meeting to be held before the end of April each year. The AGM decides the payment date which must be within six months of the AGM. The AGM moreover decides the ex-date. The right to dividend payments are afforded to the registered shareholders as at the record date, i.e. three days post the declaration date (the date of the AGM).

Dividends may be claimed at the Company's registered offices for up to four years post the payment date, after which they lapse and are lawfully retained by the Company.

In deciding the amount of dividend to be paid, the Issuer is bound by the provisions of Act No. 2/1995 respecting Public Limited Companies. According to Article 99 (1) of said Act

companies are only allowed to allocate as dividend, profits according to the previous fiscal year's annual accounts, profits that have been carried over from prior years and available funds from which unsettled losses and agreed or lawfully required reserves have been deducted.

The Company is further bound by covenants concerning dividend payments that loan agreements may contain at any given time. Current covenants forbid dividend payments until and including 30 June 2019. Accordingly, no dividends were paid to shareholders in 2019.

08 CORPORATE GOVERNANCE

Icelandair Group's corporate governance framework is defined by Act No. 2/1995 on Public Limited Companies ("the Public Companies Act") and set out in the Articles of Association ("the Articles"). In accordance with Article 70 (5) of the Public Companies Act the Board of Directors ("the Board") has set itself formal Rules of Procedure ("the Rules") which are supplementary to the Articles. According to the Rules the Board of Directors may elect committees that operate on behalf of the Board.

Icelandair Group adheres to the principles set forth in the Corporate Governance Guidelines, published by the Iceland Chamber of Commerce in co-operation with SA Business Iceland and Nasdaq Iceland (the "Guidelines") as is reflected in the Company's Corporate Governance Statement that forms part of its Consolidated Financial Statements annually.

As of the date of this Share Registration Document there are no material deviations from the full compliance with the Guidelines.

8.1 Articles of Association

The objective of the Company, according to article 1.4 of the Articles is to own and run airlines and tourism companies, the purchase and sale of shares, especially shares in other companies working in the field of aviation, travel industry and transport, purchase and sale of real estate, lending and other related business.

The Articles feature provisions regarding shareholders' meetings in article 4, regarding the Board of Directors in article 5, regarding the President and CEO (therein referred to as Managing Director) in article 9, and regarding accounting and auditing in article 10.

According to the Articles the supreme power of the Company's affairs, within the boundaries set by the Articles and Icelandic legislation, lies in the hands of a lawful shareholders' meeting. Shareholders' meetings, including the annual general meeting, are lawful if they are lawfully called for, regardless of eventual attendance.

The following hold a right to participate in shareholders' meetings: Shareholders, their advisors and/or agents, given that they present a signed and dated written power of attorney; the Company's accountants and CEO, even if they are not shareholders; and by invitation of the Board, consultants whose advice or assistance is required. One vote is attached to each share in the Company and matters are decided by simple majority unless otherwise stipulated in the Articles or relevant legislation.

Shareholders' meetings shall be called as deemed necessary by the Board, or when the elected auditor or shareholders controlling at least 10% of the share capital so insist, in writing and suggests an agenda for the meeting. The Board shall call a meeting within fourteen days of receiving a lawful claim thereof, giving a minimum of 21 days' notice. Shareholders' meetings shall be called for by with a method which is considered to ensure swift access to the meeting on equal grounds. Trustworthy media shall be used which ensures the circulation of the invitation to the public in the European Economic Area. Such media includes the Nasdaq news distribution platform. The meeting shall also be called for with an advertisement in Icelandic media. For further details on shareholder rights reference is made to Chapter 7.2 *Shareholders*.

The Annual General Meeting ("AGM") shall be held within eight months from the end of the preceding fiscal year. Annual general meetings shall be called by the same process as other shareholders' meetings. No later than seven days prior to the AGM its agenda, along with all supplementary documentation, annual accounts and any proposals for amendments to the Articles shall be available to shareholders at the Company's headquarters.

The Company's Board exercises the supreme authority in the Company's affairs between shareholders' meetings and is entrusted with the task of ensuring that the organization and activities of the Company's operations are always in correct and proper order. The Board, as instructed by the Articles appoints a President and CEO (the "CEO") for the Company and decides the terms of his or her employment. The Board and CEO are responsible for the management of the Company.

The Board must always ensure that there is adequate supervision of the Company's accounts and the safeguarding of its assets and shall adopt working procedures in compliance with the Public Companies Act. Only the Board may assign powers of procuration on behalf of the Company. The signatures of the majority of the members of the Board are required to bind the Company. The CEO has charge of day-to-day operations of the Company and is required to observe the policy and instructions set out by the Board. Day-to-day operations do not include measures which are unusual or extraordinary. Such measures can only be taken by the CEO with the specific authorization of the Board unless it is impossible to await the decision of the Board without seriously disadvantaging the operations of the Company. In such instances, the CEO is required to consult with the Chairman of the Board, if possible, after which the Board must immediately be notified of the measures.

The CEO shall ensure that the accounts and finances of the Company conform to law and accepted practices and that all assets belonging to the Company are securely safeguarded. The CEO is required to provide the members of the Board and Company auditors with any information pertaining to the operations of the Company which they may request, as required by law.

The Board elects a Chairman from among its members and otherwise divides tasks as necessary. The Chairman calls Board meetings and chairs them. A meeting must also be held if requested by a member of the Board or the CEO. Meetings of the Board are lawful if attended by a majority of its members. However, important decisions shall not be made unless all members of the Board have had an opportunity to discuss the matter, if possible. The outcome of issues is decided by force of vote. Proposals are stricken if votes are equal. The CEO attends meetings of the Board, even if he or she is not a member of the Board and has the right to participate in discussions and submit proposals unless otherwise decided by the Board in individual cases.

A book of minutes is kept of proceedings at meetings and must be signed by participants in the meeting. A Board Member who disagrees with a decision made by the Board is entitled to have his or her dissenting opinion entered in the book of minutes. The same applies to the CEO. The Chairman is responsible for the Board's relations with the shareholders and shall inform the Board on their views as applicable.

The current Rules of Procedure for the Board were approved on 2 February 2018. In accordance with article 14 of the Rules the Board must annually evaluate its work, size, composition and practices, and must also evaluate the performance of the CEO and others

responsible for the day-to-day management of the Company and its development. The annual performance assessment is intended to improve working methods and increase the efficiency of the Board. The assessment entails e.g. evaluation of the strengths and weaknesses of the Board's work and practices and takes into consideration the work components which the Board believes may be improved.

The Board elects the members of two sub-committees; the Compensation Committee and the Audit Committee. The sub-committees adhere to the Rules. The Board convened 46 times during the year 2018 and almost all meetings were attended by all Board members.

8.2 Members of the Board of Directors

The Company's Board of Directors consists of five members elected at the Annual General Meeting for a term of one year. Those who intend to stand for election to the Board of Directors must inform the Board in writing of their intention at least seven days before the Annual General Meeting, or extraordinary shareholders' meeting at which elections are scheduled. Only those who have informed the Board of their candidacy are eligible.

The following were voted to serve on the Company's Board of Directors at the last Annual General Meeting, held on 8 March 2019, until the next Annual General Meeting which is to take place no later than 31 August 2020:

Úlfar Steindórsson, Chairman, was born in 1956 and is the CEO and Chairman of Toyota in Iceland. He was the CEO of Primex ehf. in Siglufjordur from 2002-2004, and the CEO of the New Business Venture Fund from 1999-2002. Úlfar has held various board positions in the Icelandic business environment in the past years. Úlfar holds a Cand.Oecon from the University of Iceland and an MBA from Virgina Commonwealth University.

Úlfar joined the Board of Directors on 15 September 2010.

Current positions as member of the Board or management, owner or co-owner:

Toyota á Íslandi ehf. (chairman), Toyota Kauptúni ehf. (chairman), UK fjárfestingar ehf. (chairman), Bílaútleigan ehf. (chairman), Okkar bílaleiga ehf. (chairman), Mótormax ehf. (chairman), Skorri ehf. (chairman), Keila ehf. (boardmember), Jú ehf. (chairman), MyCar ehf. (boardmember), Kraftvélar ehf. (chairman), Kraftvélaleigan ehf. (chairman), Fagkaup ehf. (boardmember). Bláa lónið ehf. (alternate boardmember).

Member of the Board or management, owner or co-owner in the past five years:

S. Guðjónsson ehf. (boardmember), Johan Rönning ehf. (boardmember), Áltak ehf. (boardmember), Króksslóð ehf. (boardmember), BH eignarhaldsfélag ehf. (boardmember), Bifreiðainnflutningur ehf. (boardmember).

Ómar Benediktsson, Deputy Chairman, was born in 1959 and is the CEO of Farice ehf. He is a Board Member of Landsnet hf. and Húsafell Resort ehf. Ómar has held various positions in the tourist and aviation industry over the past 30 years, including at Island Tours, Islandsflug, Air Atlanta and SmartLynx airlines as well as being a board member on various boards in the industry. Ómar has a Cand.Oecon. degree from the University of Iceland.

Ómar joined the Board of Directors on 3 March 2017.

Current positions as member of the Board or management, owner or co-owner:

Farice ehf. (senior management), B12 ehf. (boardmember), Grænabyggð ehf. (boardmember).

Member of the Board or management, owner or co-owner in the past five years:

None other than above

Guðmundur Hafsteinsson, Board Member, was born in 1975 and leads product development for Google Assistant at Google. He joined Google in 2014 after the Merger of Google and Emu, a chat based virtual assistant start-up he founded in 2012. Prior to the founding of Emu, he was VP Product at Siri, and stayed on after the acquisition by Apple through the launch of Siri on iPhone 4S. Prior to Siri/Apple, Guðmundur was a Senior Product Manager at Google, where he managed the initial launches of Google Maps for mobiles and Google Voice Search. Guðmundur holds an MBA degree from MIT and a B.Sc. degree in Electrical and Computer Engineering from the University of Iceland.

Guðmundur joined the Board of Directors on 8 March 2018.

Current positions as member of the Board or management, owner or co-owner:

Milo ehf. (boardmember), DT42 ehf. (boardmember).

Member of the Board or management, owner or co-owner in the past five years:

Key Me (boardmember), Meniga ehf. (boardmember), EMU (founder and senior manager).

Heiðrún Jónsdóttir, Board Member, was born in 1969 and is an attorney at law. Heiðrún is a member of the Board of Directors at Íslandsbanki and Olíuverzlun Íslands. Heiðrún is the former chairman of the Board of Directors at Gildi Pension Fund, Norðlenska and Íslensk Verðbréf. She is a former member of the board of Síminn hf. and Ístak. Heiðrún was the public relations officer of Landssíminn hf. from 2001-2003, Managing Director and Partner at Lex Legal Services from 2003-2005. From 2006 until 2012 she was the Vice President of legal affairs and public relations at Hf. Eimskipafélag Íslands. Heiðrún holds a law degree from the University of Iceland, is a District Court Attorney and has finished an Advanced Management Program from IESE Business School in Barcelona.

Heiðrún joined the Board of Directors on 8 March 2018.

Current positions as member of the Board or management, owner or co-owner:

Gildi pension fund (Chairman of the Board), Reginn hf. (boardmember), Íslandsbanki hf. (boardmember), Múli lögmannsstofa (owner).

Member of the Board or management, owner or co-owner in the past five years:

Olíuverzlun Íslands hf. (boardmember), Síminn hf. (boardmember)

Svafa Grönfeldt, Board Member, was born in 1965 and is a founding member of MIT's innovation accelerator DesignX, and a co-founder of the MET fund, a Cambridge based seed investment fund. Svafa is a member of the Board of Directors at Össur since 2008. Previous positions include Chief Organizational Development Officer of Alvogen, President of Reykjavik University and Deputy to the CEO of Actavis Group. Svafa holds a PhD in Industrial Relations from London School of Economics.

Svafa joined the Board of Directors on 8 March 2019.

Current positions as member of the Board or management, owner or co-owner:

Össur hf. (boardmember), Origo hf. (boardmember), MIT Innovation Accelerator (Chairman of the Board).

Member of the Board or management, owner or co-owner in the past five years:

Alvogen hf. (senior manager)

All Members of the Board of Directors are independent from the Company.

8.2.1 Compensation Committee

The purpose of the Compensation Committee is to avoid placing the Company's management in control of their own remuneration and, furthermore, to ensure that the management's remuneration is structured to serve the long-term interests of shareholders. The main tasks of the Compensation Committee are policy making with respect to the management's performance related bonuses, including stock options. The Committee conducts evaluations of management remuneration and monitors the management's acquisition of stock in the Company. The Compensation Committee meets on average four times a year.

The Compensation Committee provides guidance to the Board of Directors of the Company and executive management concerning the employment terms of the Company's key management staff and gives advice on the Remuneration Policy. The Committee also monitors that the remuneration of key management staff is within the framework of the Remuneration Policy and reports to the Board of Directors annually. The committee also ensures that remuneration and employee terms are in compliance with applicable official rules, regulations and general guidance. The committee takes an independent decision regarding the effect of wages on risk and risk management of the Company.

The current Compensation Committee was appointed on 23 March 2018 and comprises the following Board Members: Úlfar Steindórsson and Ómar Benediktsson.

8.2.2 Audit Committee

The Audit Committee is appointed by the Company's Board of Directors. The committee consists of a minimum of three members who are independent of the Company's day-to-day operations. The members must have relevant experience and expertise regarding auditing and applicable laws.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews

of risk management controls and procedures, the results of which are reported to the Audit Committee. The committee oversees the Company's annual accounts and the Group's consolidated accounts.

The committee is responsible for evaluating the independence and eligibility of both the Company's auditor and its auditing firm. The committee makes suggestions to the Board of Directors regarding the selection of the Company's auditor.

According to Article 8.8 of the Articles, committees working on behalf of the Board of Directors are elected in accordance with provisions in the Rules of Procedure and their conclusions are advisory for the Board of Directors. The Board is not bound by the committees' conclusions when resolving matters unless otherwise stipulated by law.

According to the Guidelines on Corporate Governance the Audit Committee must consist of at least three members, the majority of whom must be independent of the Company.

The current Audit Committee was appointed on 8 March 2019 and is comprised of the following persons: Heiðrún Jónsdóttir, chairman, Svafa Grönfeldt and Guðmundur Hafsteinsson.

8.2.3 Nomination Committee

The Company's Nomination Committee was elected at the 2019 AGM and is made up of Helga Árnadóttir and Hjörleifur Pálsson.

8.2.4 Compliance

The Board of Directors has appointed Ari Guðjónsson, the Company's general counsel as the Company's Compliance Officer. The Board has further appointed Kristín Björg Eysteinsdóttir as the alternate Compliance Officer. The role of the Compliance Officer includes overseeing that the rules on treatment of insider information and insider trading are complied with within the Company.

8.3 Executive Committee

Bogi Nils Bogason, *President & CEO Icelandair Group*, started his career within Icelandair Group in October 2008 as a CFO. He was the CFO of Askar Capital from January 2007 until he joined Icelandair Group and the CFO of Icelandic Group from 2004-2006. Bogi Nils served as an auditor and partner at KPMG in Iceland during the years from 1993-2004.

Bogi Nils holds a Cand Oecon degree in Business Administration from the University of Iceland and is a state authorized public accountant.

Current positions as member of the Board or management, owner or co-owner:

EFIA, Pilot's Pension Fund (boardmember), Möskvi ehf. (co-owner, boardmember), SA Confederation of Icelandic Enterprise (boardmember)

Member of the Board or management, owner or co-owner in the past five years:

None other than with the Issuer

Árni Hermannsson, *Chief Aircraft Leasing and Consulting Officer*, appointed Managing Director of Loftleidir Icelandic in January 2018 after having served as Chief Financial Officer of the Company since 2002. Prior to that he was Chief Financial Officer of the Icelandic technology companies ANZA and Alit.

Árni holds a Cand. Oecon. Degree in Business Administration from the University of Iceland.

Current positions as member of the Board or management, owner or co-owner:

None other than with the Issuer

Member of the Board or management, owner or co-owner in the past five years:

None other than with the Issuer

Birna Ósk Einarsdóttir, *Chief Sales and Customer Experience Officer*, was appointed Chief Business Development and Strategy Officer in January 2018. She served as Executive Vice-President of Marketing and Business Development for Landsvirkjun from April 2017. She worked as an executive for the IT company Síminn from 2011, most recently as head of sales and services. Birna worked for Síminn from 2001, starting in public relations and HR. She led Síminn's Project Management Office in 2006 to 2010 and concurrently managed market affairs in 2009 to 2010 until she accepted the post of executive officer. Birna has served on the board of directors of Skeljungur hf. since 2015 and Já ehf. since 2017. She served on the board of directors of Farsímagreiðslur ehf., a mobile payment service provider, from 2012 to 2015 and on the board of directors of Gildi Pension Fund from 2014 to 2015.

Birna holds a degree in business from the University of Reykjavik and an M.Sc. degree in Management and Strategic Planning from the University of Iceland; she has further completed a programme of AMP studies for managers at the IESE Business School in Barcelona.

Current positions as member of the Board or management, owner or co-owner:

Skeljungur hf. (boardmember)

Member of the Board or management, owner or co-owner in the past five years:

Landsvirkjun hf. (senior manager), Síminn hf. (senior manager), Radíomiðlun ehf. (boardmember), Sensa hf. (boardmember), Gildi pension fund (boardmember).

Elísabet Helgadóttir, *Chief Human Resources Officer*, joined Icelandair Group in January 2018. She worked in human resource management at Íslandsbanki since 2007 and held the role of head of career development from 2012 - 2017. Her tasks at Íslandsbanki included supervision of all staff education and training, management training, executive coaching and performance management. From 2000 to 2007, she worked for Capacent Gallup on research and consultancy.

Elísabet holds a B.A. degree in psychology from the University of Iceland and a Master's degree in human resource management from the EADA Business School in Barcelona.

Current positions as member of the Board or management, owner or co-owner:

None

Member of the Board or management, owner or co-owner in the past five years:

None

Eva Sóley Guðbjörnsdóttir, *Chief Financial Officer*, joined Icelandair Group in February 2019. She worked as the Managing Director of Finance and Operations at Advania in Iceland from 2015 and then as the Managing Director of Service and Operations of the Company from May 2018. Prior to that she was Vice President in Corporate Finance at Össur. Eva Soley has also worked as an independent consultant and investor but started her career within the financial services industry and worked at Kaupthing bank for many years.

Eva Soley holds a Master of Science Degree in Financial Engineering and a Bachelor of Science Degree in Engineering Management Systems, with a minor in Economics from Columbia University in New York.

Current positions as member of the Board or management, owner or co-owner:

Vísindagarðar Háskóla Íslands ehf. (boardmember), Sólþing ehf. (co-owner, boardmember), Þórsþing ehf. (co-owner, boardmember), Íscap ehf. (co-owner, boardmember)

Member of the Board or management, owner or co-owner in the past five years:

Advania Ísland ehf. (senior manager), Advania Data Centers ehf. (boardmember), Advania Mobile Pay ehf. (boardmember), Embla Solutions ehf. (boardmember), Júpíter rekstrarfélag (boardmember), Skeljungur hf. (boardmember).

Gunnar Már Sigurfinnsson, *Chief Air Freight and Logistics Officer,* was appointed Chief Commercial Officer Icelandair and Icelandair Cargo in January 2018. Prior to that he serves as Managing Director of Icelandair Cargo in May 2008 and as SVP of Sales and Marketing at Icelandair from 2005. Gunnar Már became Director of Sales Planning and Control in 2000, and in 2001 he became General Manager of the Germany, Netherlands & Central Europe regions.

Gunnar Már holds a degree in Business Administration from the University of Iceland.

Current positions as member of the Board or management, owner or co-owner:

None other than with the Issuer

Member of the Board or management, owner or co-owner in the past five years:

None other than with the Issuer

Ívar S. Kristinsson, *Chief Fleet and Network Officer*, served as Managing Director of Icelandair's Fleet since May 2018 after having been with the Company since 2010 as Director of Resource Mangement. Prior to that, he was a Director in Operations at Promens from 2006 to 2008 and Project Manager at Icelandair from 2000 to 2005.

Ivar holds an MSc. Degree in Industrial Engineering from University of Iceland and an MBA in Corporate Finance from University of North Carolina, Chapel Hill.

Current positions as member of the Board or management, owner or co-owner:

None other than with the Issuer

Member of the Board or management, owner or co-owner in the past five years:

Skenkur ehf. (owner and boardmember)

Jens Þórðarson, *Chief Operating Officer,* first joined Icelandair in 2006 as an assistant to Managing Director at Icelandair Technical Services. He became Director of Finance and Resources at Icelandair's Technical Division from 2007 to 2010, when he accepted a post as head of the Materials and Procurement department and later served as VP Technical Operations at Icelandair from October 2011. Jens was appointed Chief Operating Officer in January 2018.

Jens holds B.Sc. and Master's degrees in industrial engineering from the University of Iceland.

Current positions as member of the Board or management, owner or co-owner:

None other than with the Issuer

Member of the Board or management, owner or co-owner in the past five years:

None other than with the Issuer

Tómas Ingason, *Chief Information Officer*, joined Icelandair Group in March 2019. He was Chief Commercial Officer of WOW air in 2018 and Director of Rapid Digitization at Arion Bank between 2016 and 2018. Tomas was Chief Business Development Officer of WOW air in 2014. Prior to that he was Management Consultant at Bain & Company in Copenhagen and served as Director of Revenue Management and Pricing at Icelandair for several years.

Tómas holds an MBA Degree from MIT Sloan School of Management in Boston, MSc. Degree of Engineering in Logistics and Supply Chain Management and a BSc. Degree in Industrial Engineering from the University of Iceland.

Current positions as member of the Board or management, owner or co-owner:

Parellel ehf. (boardmember), Ting ehf. (owner/boardmember), Reykjavík Duck Tours ehf. (owner/boardmember).

Member of the Board or management, owner or co-owner in the past five years:

WOW air ehf. (senior manager)

8.3.1 Terms of employment of the Executive Committee

Employment contracts with the Executive Committee are believed to be by and large standard contracts for a company such as Icelandair Group, providing for termination periods of three to twelve months. The Company's President and CEO, Bogi Nils Bogason has a twelve-month termination period stipulated in his employment contract. All employment contracts with key employees stipulate non-compete and confidentiality clauses for 12-24 months after termination. All contracts with Executive Committee members provide for termination without warning in case of a breach of the confidentiality clause.

None of the employment contracts with Executive Committee members contain dates of expiration of their current terms of office nor do they provide for benefits upon termination of employment. Neither the Company nor its subsidiaries have set aside or accrued funds to provide pension, retirement or similar benefits beyond what is required by law to any member of the Board or Executive Board.

The Company has a bonus scheme in place that applies to the members of the Executive Committee and certain executive directors. Payments under the scheme are discretionary and

subject to the decision of the Remuneration Committee. A total of 15 people qualified for and received cash payments under the scheme for the 2018 fiscal year.

Item 44 sets forth a breakdown of remuneration paid to the Board of Directors and Executive Committee members in 2018[44]. It also provides information regarding holdings in the Company's Shares by these individuals as at 6 May 2019.

Item 44. Salaries and benefits for the year ended 31 December 2018

	2018 Salaries, bonuses and benefits ISK million	Number of shares held at 6 May 2019 (´000)
Board of Directors:		
Úlfar Steindórsson, Chairman of the Board	10,591	12,240
Ásthildur Margrét Otharsdóttir[45]	7,556	n/a
Guðmundur Hafsteinsson	4,863	
Heiðrún Emelía Jónsdóttir	4,944	400
Ómar Benediktsson	8,182	
Georg Lúðvíksson, former Board member	0,926	
Katrín Olga Jóhannesdóttir, former Board member	1,815	n/a
Key employees:		
Bogi Nils Bogason, President & CEO[46]	59,383	1,750
Björgólfur Jóhannsson, former President & CEO	68,799	n/a
Members (6) of the Executive Committee[47]	204,046	261

8.3.2 Statements and Potential Conflict of Interest

Attention is drawn to the following interests held by members of the Board of Directors and the Executive Committee.

Úlfar Steindórsson, chairman of the Board of Directors of Icelandair Group holds a total of 12,240,000 Shares in the Company.

Heiðrún Emelía Jónsdóttir, Member of the Board, holds a total of 400,000 Shares in the Company. Heiðrún also serves on the Board of Directors of Íslandsbanki hf. Íslandsbanki hf. was retained by the Company to act as Listing Advisor in the admittance of the New Shares to trading and accepts a fee for its services in that capacity. Íslandsbanki hf. further provides lending and general banking services to the Company. Finally, Heiðrún serves as the Chairman of the Board of Gildi pension fund. At close of business on 6 May 2019, Gildi pension fund holds a total of 393,761,301 Shares in the Company, which made it the second largest shareholder at that date.

Eva Sóley Guðbjörnsdóttir, Icelandair's Chief Financial Officer is a co-owner of Sólþing ehf. along with her spouse. Sólþing ehf. holds 1,250,000 Shares in the Company.

[44] The table entails figures for those individuals that formed the Executive Committee in 2018.
[45] Ásthildur served on the Board until the 2019 AGM, March 8 2019.
[46] Bogi Nils assumed the role of interim President and CEO on 27 August 2018 and served in a dual role as CEO/CFO until his formal appointment to the role of CEO on 4 December 2018. Amount stated here reflects remuneration for both roles.
[47] Changes were made to the organisational structure of the Company in the first quarter of 2019 whereby the Executive Committee members were increased to 9 persons. This figure reflects the composition of the Executive Committee as it was in 2018.

The Company is not aware of any other potential conflicts of interests between any duties of the members of the Board of Directors or the Executive Committee, and their private interests and/or other duties.

During the period of the last five years preceding the date of this Share Registration Document, no member of the Board of Directors or the Executive Committee has been convicted of a fraudulent offence nor have they been subject to any official public incrimination and/or sanctions by any statutory or regulatory authorities (including designated professional bodies) or ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

None of the members of the Board of Directors or the Executive Committee have, in the past five years, been associated with companies, in their capacity as a founder, director or senior manager, which have filed for bankruptcy or gone into receivership or liquidation.

No members of the Board of Directors or the Company´s Executive Committee have share options in the Company. No other amount has been set aside or accrued by the Issuer or its subsidiaries to provide pension, retirement or similar benefits agreed by the Company with any of its Board members or Executive Committee members.

Members of the Board of Directors are elected at shareholders' meetings. No members of the administrative, management or supervisory bodies have made any service contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment.

8.4 Related Party Transactions

Parties who have material influence on the Group's business as large shareholders of the Company, subsidiaries of the Company, affiliates of the Company, and members of the Board of Directors, CEO, CFO and other senior management within the Group are considered related to the Company. The definition is based on international accounting standard No. 24 (IAS24).

All intra-Group transactions are made at arm's length and on market terms and are eliminated upon consolidation of the Group's financial statements. They are therefore not included in the Company's consolidated balance sheet or results of operations.

Transactions with management and key personnel

Transactions with members of management and other key personnel consist of purchase and sale of services in the ordinary course of business on an arm's length basis which were immaterial in amounts in 2018, 2017 and 2016. Reference is made to Chapter 8.3.1 *Terms of employment of the Executive Committee* for information on remuneration paid to Executive Committee members in 2018.

Transactions with associates

During the years 2016, 2017 and 2018 the Company's transactions with associates were immaterial. At year-end 2018 the Company had a receivable in its associate Lindarvatn amounting to USD 1.6 million.

Transactions with shareholders

There are no shareholders with significant influence at year-end 2018. Companies which are controlled by members of the Board or key employees have been identified as being twenty-

five. These companies have been identified as related. Transactions with them consist of purchase and sale of services in the ordinary course of business on an arm's length basis which were immaterial in amounts in 2018, 2017 and 2016.

8.5 Auditors

As stipulated in the Company's Articles of Association the Company's fiscal year is the calendar year. Further it is stated that the Company's annual accounts shall be audited by an auditing company, and that an auditor or auditor company shall be elected at the AGM for a term of one year. The Company's auditing company and auditors shall be provided with any information requested in relation to its auditing services for the Company. The Company's annual accounts, report of the Board of Directors, and report of the auditor shall be available for review by the shareholders at the Company's headquarters no later than 21 days before the Annual General Meeting. The qualifications and eligibility of auditors is subject to statutory law.

The elected audit company of Icelandair Group for the 2019 fiscal year is KPMG. KPMG has been the Company's auditing firm since 1973. KPMG has not resigned, been removed from office or not been re-elected during the period covered by the historical financial information in this Share Registration Document.

On behalf of KPMG, Alexander G. Eðvardsson, Certified Public Accountant and Auður Þórisdóttir, Certified Public Accountant audited and endorsed the consolidated annual accounts of Icelandair Group hf. for the year 2016 and 2017. On behalf of KPMG, Auður Þórisdóttir, Certified Public Accountant and Hjördís Ýr Ólafsdóttir, Certified Public Accountant audited and endorsed the consolidated annual accounts of Icelandair Group hf. for the year 2018. Alexander, Auður and Hjördís Ýr are members of the Institute of State Authorized Public Accountants in Iceland.

09 ARTICLES OF ASSOCIATION

ICELANDAIR GROUP

ARTICLES OF ASSOCATION

FOR

ICELANDAIR GROUP HF.

ARTICLES OF ASSOCATION

for

ICELANDAIR GROUP HF.

1 THE NAME OF THE COMPANY, DOMICILE AND OBJECT

1.1 The name of the Company Icelandair Group hf.,

1.2 The Company is a public limited liability company

1.3 The Company is domiciled at Reykjavíkurflugvöllur, Reykjavík.

1.4 The object of the Company is to own and run airlines and tourism companies, purchase and sale of shares, especially shares in other companies working in the field of aviation, travel industry and transport, purchase and sale of real estate, lending and other related business.

2 SHARE CAPITAL OF THE COMPANY

Share capital – shares - votes

2.1 The Company's share capital is 5,437,660,653.

2.2 Each share is ISK one krona.

2.3 One vote is attached to each share at shareholders' meetings.

(Special provisions on increase of share capital and other special provisions are contained in Clause 15 and 16).

Increase of share capital

2.4 Only a Shareholders' Meeting may decide to increase the Company's share capital, either by subscription of new shares or issuance of compensation shares.

Preemptive rights

2.5 Shareholders shall have a preemptive right to purchase new shares in proportion to their registered holdings. Exemptions from this are authorized; cf. paragraph 3 of Article 34 of Act no. 2/1995 respecting limited liability companies (the "**Company Act**").

Shares – share register

2.6 The Company's shares shall be issued electronically in accordance with the provisions of the act on Electronic Registration of Title to Securities.

2.7 A share register in accordance with the provisions the Act on Electronic Registration of Title to Securities shall be regarded as sufficient proof ownership over shares in the Company and dividends and all notifications shall be sent to the party which is at each time registered as an owner of the relevant shares in the Company's share register.

Sale of shares and changes of ownership

2.8 No restrictions are placed on the shareholder's right to sell his shares. The provisions of the Act on Electronic Registration of Title to Securities and rules based on the Act shall govern the change of ownership.

2.9 Sale of shares to foreign parties shall be governed by Icelandic law as it reads at the relevant time.

Rights and obligations of shareholders

2.10 Shareholders are obligated, without any statement on their behalf, to abide by the Articles of Association as they are issued or later lawfully amended. Shareholders will not, neither according to the Articles of Association or subsequent amendments, become obligated to increase their holdings in the Company and shall not be subjected to redemption of their shares. Shareholders are not responsible for the Company's obligations exceeding their holding in the Company unless they take on such liability in a legally binding document. This provision will not be changed or discontinued by any resolution of a shareholders' meeting.

2.11 No special rights accompany the shares.

Communication with shareholders

2.12 Electronic file communication and e-mailing is permitted between the Company and shareholders instead of sending and submitting written documents. The authorization extends to any kind of communication between the Company and shareholders, e.g. invitations to shareholders' meetings, distribution of dividends and other notifications which the Board of Directors sends the shareholders. Such electronic communication is equal to correspondence written on paper. The Board of Directors shall set rules stipulating the conduct of electronic communication and the standards of the software used for this purpose. The rules shall be accessible to shareholders. Shareholders who wish to communicate electronically with the Company shall send the Company a confirmation thereof in accordance with the rules set by the Board of Directors.

3 CORPORATE GOVERNANCE

3.1 The Company shall be governed by:

a) The Shareholders' meetings.
b) The Board of Directors.
c) The Managing Director.

4 SHAREHOLDERS' MEETINGS

4.1 The supreme power of the Company's affairs, within the boundaries set by these Articles of Association and Icelandic legislation is in the hands of lawful shareholders' meetings.

Right to participation

4.2 Shareholders, shareholders' agents, the Company's accountants and the managing director, even if he is not a shareholder, have the right to participate in shareholders' meetings. Furthermore, the Board of Directors may invite specialists to attend the shareholders' meeting if their advice or assistance is required.

4.3 The Board of Directors is authorized to decide that shareholders may participate in shareholders' meetings by electronic means without being physically present. If the Board of Directors feels that the Company has equipment which is sufficiently safe to allow shareholders to participate in shareholders' meetings electronically without being physically present and the Board of Directors decides to use this authorization it shall be announced in the invitation to the meeting.

4.4 Shareholders who intend to participate electronically in shareholders' meetings shall notify the Company's office with 5 days notice thereof and submit written questions regarding the agenda or documents to be presented at the meeting which they require answers to.

4.5 The shareholders shall have access to instructions regarding electronic participation in shareholders' meetings along with a password and necessary equipment for participation. An inserted password into a computer system is deemed to be equal to the shareholder's signature and is viewed as valid participation in the shareholders' meeting.

Electronic shareholders' meetings

4.6 The Board of Directors may decide that a shareholders' meeting only be held electronically.

4.7 If the Board of Directors feels that the meeting can be held only electronically with suitable equipment and thereby allowing shareholders to participate electronically, the invitation to the meeting shall clearly give information regarding the technical equipment and information on how shareholders notify the Company of their electronic participation and where they can receive information, instructions and a password for participation. An inserted password into a computer system is deemed to be equal to the shareholder's signature and is viewed as valid participation in the shareholders' meeting.

Voting outside a meeting

4.8 If the Board of Directors feels that it is not possible to allow shareholders to participate in shareholders' meetings electronically they shall be allowed to vote on proposals or participate in voting in writing or electronically. The Board of Directors shall set rules regarding the execution of such voting.

Power of Attorney

4.9 A shareholder may send an agent to the shareholders' meeting on his behalf. The agent shall submit a written or an electronic power of attorney which shall be dated.

4.10 A power of attorney will not be validly revoked after it has been submitted at the delivery of meeting documents or after the shareholders' meeting has been declared open, which ever happens first.

Lawfulness of shareholders' meetings

4.11 A shareholders' meeting is lawful without regard to attendance if it is lawfully called for.

Annual General Meeting

4.12 An annual general meeting shall be held within eight months from the end of the financial year. Annual general meetings shall be called with the same

method as other shareholders' meetings in accordance with the provisions of Clause 4.16 and 4.17.

Agenda of the Annual General Meeting

4.13 The following matters shall be addressed at annual general meetings:

1. The Board of Director's report on the Company's operations in the past year shall be presented.
2. Confirmation of annual accounts and decision on the handling of profit or loss of the financial year.
3. Decision on payments to board members.
4. Proposals of the Board of Directors regarding the remuneration policy.
5. Election of the Board of Directors in accordance with the provisions of Clause 5.
6. Election of auditor in accordance with the provisions of Clause10.1.
7. Proposals from shareholders which shall be on the agenda according to the provisions of Clause 4.20, cf. paragraph 4 of Article 88 of the Company Act.
8. Other matters.

If shareholders who control at least 1/3 of the Company's share capital insist in writing at the annual general meeting, a decision on item 2 on the agenda shall be postponed to the extended annual general meeting which shall be held no earlier than one month and no later than two months later. No further continuance can be requested.

The Company's annual accounts, report of the Board of Directors, and report of the auditor shall be available for review by the shareholders at the Company's offices 7 days before the annual general meeting.

Invitation to shareholders' meetings

4.14 The Board of Directors shall call for shareholders' meetings when it deems it necessary, or when the elected auditor or shareholders controlling at least 1/10 of the share capital insist in writing and suggest an agenda for the meeting.

4.15 When a lawful claim for a shareholders' meeting is presented, the Board of Directors is obligated to call for a meeting within 14 days from receiving such a claim. If the Board of Directors has not called for a meeting within that time limit a meeting can be called for in accordance with the provisions of paragraph 2 of Article 87 of the Company Act.

4.16 Shareholders' meetings shall be called for with a method which is considered to ensure swift access to the meeting on equal grounds. Trustworthy media shall be used which ensures the circulation of the invitation to the public in the European Economic Area. Such media includes the OMX information system and Huginonline. The meeting shall also be called for with an advertisement in Icelandic media.

Deadline for calling meetings

4.17 Shareholders' meetings shall be called for with a minimum of three weeks' notice.

Invitation

4.18 The invitation shall include information regarding:

1. The place of the meeting, time and draft agenda.
2. Clear and precise rules on participation in and voting at shareholders' meetings.
3. Where and how shareholders can get:
   a. Unabridged documents as they will be presented at the shareholders' meeting;
   b. Unabridged proposals and/or comments of the Board of Directors or its committees on each item on the draft agenda;
   c. Unabridged shareholder proposals as received by the Company.
4. Website where information can be located on the issues that shareholders shall, according to law, have access to in connection to a shareholders meeting.

4.19 If a proposal on amendments to the Company's Articles of Association is to be addressed at the meeting the substance of the proposal shall be described in the invitation.

Proposals from shareholders

4.20 Each shareholder has the right to have certain matters addressed at the shareholder's meeting if he so requests in writing or by electronic means to the Board of Directors of the Company with time enough in advance so that the matter can be placed on the agenda and presented to shareholders seven days before the meeting.

Agenda

4.21 The agenda shall be available for shareholders' review at the Company's office, along with final proposals to be addressed at the meeting, no later than seven days before the meeting.

Proposals for changes

4.22 Lawfully proposed additions or amendments may be presented on the shareholders' meeting itself, even though they were not available for the shareholders' review prior to the meeting.

Matters not on the agenda

4.23 Matters which have not been listed on the agenda may not be finally resolved at the shareholders' meeting without the consent of all shareholders in the Company. Those matters may however be resolved as directions to the Board of Directors.

4.24 If proposals under them item "Other matters" are presented they may not be finally resolved at the meeting, cf. Clause 4.23.

Chairman

4.25 Shareholders' meetings are chaired by a chairman elected by the meeting and he will nominate a secretary with the approval of the meeting. The chairman shall solve all matters which arise concerning the lawfulness of the meeting and its conduct in accordance with these Articles of Association and Icelandic legislation. He shall furthermore, decide the form of discussions, procedures for addressing matters at the meeting and voting.

Minutes of shareholders' meetings

4.26 Minutes of the meeting shall be kept in detail and all resolutions and results of voting recorded. The minutes shall be read out loud at the end of the meeting and comments on the minutes noted in the minutes. The minutes shall be signed by the chairman and secretary. The minutes shall constitute full proof of the events of shareholders' meetings.

Weight of votes

4.27 A simple majority of votes will decide matters at shareholders' meetings unless otherwise stipulated in these Articles of Association or Icelandic law. A proposal is stricken if votes are equal. If two or more men receive the equal amount of votes in elections a tossup shall determine the election.

Nomination Committee

4.28 The Company shall operate a nomination committee which has the role to be advisory in the selection of members of the Board of Directors and it will bring its proposals for the AGM or other Shareholders' meetings where election to the Board of Directors is on the agenda.

The nomination committee shall put forward its rationalized opinion concurrently to the notification of the AGM or as soon as possible in conjunction with other shareholder meetings. The committee's opinion shall be made available to shareholders in the same way as other proposals to be submitted to the meeting. The committee operates according to rules of procedures which are set by the committee itself and approved by the Board of Directors. The nomination committee shall make changes to its rules of procedures accordingly or put them forward unaltered and have approved by the Board of Directors annually.

Appointment of the Nomination Committee

4.29 The nomination committee shall consist of three members. The Shareholders' meeting shall elect two members, one man and one woman, which are nominated by shareholders. When the Shareholders' Meeting has elected members, the Board of Directors will nominate one member to the committee.

All members shall be independent of the Company and its executives. The member nominated by the Board of Directors shall be independent of the Company's' largest shareholders. The same criteria shall apply to the assessment of independence of Committee members as to the assessment of the independence of Board Members according to The Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, SA Business Iceland and Nasdaq Iceland.

5 BOARD OF DIRECTORS

5.1 The annual general meeting of the Company annually elects 5 men for the Board of Directors. Their ability is determined by law.

Candidacy

5.2 Those who intend to run for the Board of Directors shall notify the Board of Directors of their candidacy at least 7 days before a shareholders' meeting. The notification shall list the name, identification number and address of the candidate along with information about his main employment, other board memberships, education, experience and shareholdings. Candidates shall

furthermore list any interest connected to main clients and competitors of the Company and shareholders controlling more than 10% of the Company.

5.3 The Board of Directors shall review notifications of candidacy and give the candidate, in verifiable manner, the opportunity to correct any flaws the notification has within a specific time limit. If the flaws are not corrected within the given time limit the Board of Directors shall decide on the validity of candidacy. The Board's decision can be put to the decision of the shareholders' meeting which shall have supreme power in deciding the validity of the candidacy.

5.4 Information about candidates for the Board of Directors shall be available for shareholders' review at the Company's offices no later than 2 days before the shareholders' meeting.

6 ELECTION OF THE BOARD OF DIRECTORS

6.1 The election of board members shall be based on a majority vote between individuals.

6.2 The election shall usually be written if the number of candidates is greater than the number of board members to be elected.

6.3 If the Company's shareholders are more than 200, shareholders controlling at least 1/10 of the share capital can insist that the voting of board members be proportional or cumulative. If the shareholders are fewer than 200 shareholders who control 1/5 of the share capital can request these voting methods.

6.4 A claim for proportional or cumulative voting shall be presented to the Board of Directors at least five days before the shareholders' meeting.

6.5 The two female candidates and the two male candidates that receive the most votes and the person who receives the most votes after the aforementioned in the election of board members shall be deemed as the rightfully elected board members.

7 DIVISION OF TASKS

7.1 The Board of Directors elects a chairman of the board from the members of the board. Otherwise the Board of Directors divides tasks as necessary.

7.2 The chairman of the Board of Directors calls board meetings and chairs the meetings. Board meetings shall be held whenever the chairman deems necessary. A meeting shall usually be held if a board member or the Managing Director insists.

7.3 The board members may participate in board meetings through communication systems. Board meetings may also be held with the assistance of electronic media in so far as it is consistent with Article 70 of the Company Act.

8 MEETINGS OF THE BOARD OF DIRECTORS

Lawfulness of board meetings

8.1 A board meeting is able to make decisions when a majority of board members participate in meetings. If possible, an important decision may not be taken

without all members of the Board of Directors having had a chance to discuss the matter.

Voting

8.2 A simple majority of votes decides matters in board meetings. Proposals are stricken if votes are equal. If votes are equal in elections between men a tossup shall decide the election.

Minutes of meetings

8.3 Board members shall keep minutes of meetings and confirm the minutes with their signature.

Goals and obligations

8.4 The Board of Directors has supreme powers in matters concerning the Company between shareholders' meetings and sets the Company's goals regarding its business and represents the Company's and the shareholder's interests in accordance with the object of the Company. The Board of Directors governs the social affairs of the Company between shareholders' meetings and binds the Company with its resolutions and agreements. The Board of Directors hires a managing director, one or more, decides his terms of employment and executes a written contract of employment.

8.5 The Board of Director grants power of procuration.

8.6 The signature of the majority of the Board of Directors is required to bind the Company.

8.7 The Board of Directors works in accordance with rules set by the Board of Directors in accordance with the Company Act.

Board committees

8.8 If committees working on behalf of the Board of Directors are elected in accordance with provisions of the rules of the Board of Directors their conclusions shall only be directive for the Board of Directors and it is not bound by their conclusions when resolving matters unless otherwise stipulated by law.

9 MANAGING DIRECTOR

9.1 The Managing Director handles the day to day operations of the Company in accordance with the rules the Board of Directors has or will set forth. The day to day operations do not include matters which are unusual or of great significance.

9.2 The Managing Director shall make sure the Company's accounts are kept in accordance with law and practice and that the Company's assets are kept in a secure manner.

9.3 The Managing Director is obligated to abide by all instructions of the Board of Directors. He shall give the auditor any information he requests.

10 ACCOUNTING AND AUDITING

10.1 The financial year of the Company is the calendar year. The annual accounts shall be audited by an auditing company. An auditor or auditor company shall be elected at an annual general meeting for a term of one year.

11 THE COMPANY'S SHARES

11.1 The Company is authorized to own up to 10% of the Company's share capital. Votes are not attached to shares owned by the Company. The Company can only acquire shares in accordance with the authorization of a shareholders' meeting to the Board of Directors and only in order to establish a market making agreement regarding shares in the Company or to establish a buy-back programme. An authorization to the Board of Directors to purchase shares in the Company may not be valid for more than 18 months at a time. Rules concerning purchasing and selling shares shall be stipulated in the rules of the Board of Directors.

12 CHANGES TO THE ARTICLES OF ASSOCIATION

12.1 The Articles of Association may only be changed by a lawful shareholders' meeting as long as the proposal for the change is described in the invitation to the meeting. The decision is only valid if approved by 2/3 of the votes and approved by shareholders controlling at least 2/3 of the votes represented at the shareholders' meeting.

13 DISSOLUTION

13.1 Should it be advisable or necessary to dissolve the Company, proposals thereof shall be governed by Chapter XIII of the Company Act.

14 MERGER

14.1 The provisions of Chapter XIV of the Company act shall apply to a merger of the Company with other companies.

15 SPECIAL PROVISIONS ON INCREASE OF SHARE CAPITAL

16 OTHER PROVISIONS

16.1 Where the provisions of these Articles of Association do not stipulate the form of proceedings the provisions of the Company Act shall be abided by.

Headlines of specific articles and information in smaller font within brackets do not form part of these Articles of Association but are inserted for practical reasons.

These Articles of Association were approved by the Company's shareholder's meeting on 21 May 2010 and replace the older Articles of Association.

Article 2.1 was changed on 9 September 2010.

Article 2.1 was changed on 27 December 2010.

Article 5.1 was changed on 23 March 2012.

Article 15.1 was changed on 23 March 2012.

Articles 6.5 and 6.6 were added on 13 March 2013.

Article 5.1 changed and article 6.6 removed on 11 March 2015.

Article 11.1 changed and article 5.1 removed on 10 March 2016.

Article 5.2 changed on 8 March 2018.

Article 15.1 added on 30 November 2018.

Article 2.1 changed and articles 4.28 and 4.29 added on 8 March 2019.

Article 2.1 changed and article 15.1 removed on 24 April 2019.

010 CONSOLIDATED FINANCIAL STATEMENTS

Icelandair Group hf.

Condensed Consolidated Interim Financial Statements

1 January - 31 March 2019

USD

Icelandair Group hf.
Reykjavíkurflugvöllur
101 Reykjavík
Iceland
Reg. no. 631205-1780

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Endorsement and Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 31 March 2019 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements (IAS 34). The interim financial statements comprise the consolidated interim financial statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The condensed consolidated Interim financial statements are stated in thousands of USD.

According to the consolidated statement of comprehensive income, loss for the period from 1 January to 31 March 2019 amounted to USD 55.1 million. Total comprehensive loss for the period was USD 45.6 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 425.8 million, including share capital in the amount of USD 39.1 million. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity.

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements for the three months ended 31 March 2019 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. The condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent auditors.

According to our best knowledge it is our opinion that the condensed consolidated interim financial statements give a true and fair view of the financial performance of the Group for the three month period ended 31 March 2019, its assets, liabilities and consolidated financial position as at 31 March 2019 and its consolidated cash flows for the period then ended.

Further, in our opinion, the condensed consolidated interim financial statements and the endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 31 March 2019 and confirm them by means of their signatures.

Reykjavík, 3 May 2019.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board
Ómar Benediktsson
Guðmundur Hafsteinsson
Heiðrún Jónsdóttir
Svafa Grönfeldt

CEO:

Bogi Nils Bogason

Consolidated Statement of Comprehensive Income
for the period from 1 January to 31 March 2019

	Notes	2019 1.1.-31.3.	2018 1.1.-31.3.
Operating income			
Transport revenue	7	167.473	173.134
Aircraft and aircrew lease		25.120	33.394
Other operating revenue	7	56.009	61.091
		248.602	267.619
Operating expenses			
Salaries and other personnel expenses		110.216	113.129
Aviation expenses		91.281	100.692
Other operating expenses		61.773	72.009
	8	263.270	285.830
Operating loss before depreciation and amortisation (EBITDA)		(14.668)	(18.211)
Depreciation and amortisation		(44.911)	(28.002)
Operating loss before net finance (costs) income (EBIT)		(59.579)	(46.213)
Finance income		432	5.601
Finance costs		(9.726)	(4.193)
Net finance (costs) income	9	(9.294)	1.408
Share of profit of associates, net of tax		405	1.266
Loss before tax		(68.468)	(43.539)
Income tax		13.355	9.011
Loss for the period		(55.113)	(34.528)
Other comprehensive loss:			
Foreign currency translation differences of foreign operations		(1.493)	(243)
Net loss on hedge of investment, net of tax		(4.042)	0
Effective portion of changes in fair value of cash flow hedge, net of tax		15.074	7.826
Other comprehensive profit for the period		9.539	7.583
Total comprehensive loss for the period		(45.574)	(26.945)
Loss attributable to:			
Owners of the Company		(55.196)	(34.429)
Non-controlling interest		83	(99)
Loss for the period		(55.113)	(34.528)
Total Comprehensive loss attributable to:			
Owners of the Company		(45.618)	(26.865)
Non-controlling interest		44	(80)
Total comprehensive loss for the period		(45.574)	(26.945)
Loss per share:			
Basic loss per share in US cent per share		(1,15)	(0,72)
Diluted loss per share in US cent per share		(1,15)	(0,72)

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Financial Position
as at 31 March 2019

	Notes	31.3.2019	31.12.2018
Assets			
Operating assets	10	666.019	673.420
Right-of-use assets	4	168.203	0
Intangible assets and goodwill		176.163	177.568
Investments in associates		27.204	26.134
Deferred cost		0	91
Receivables and deposits		31.139	17.365
Non-current assets		1.068.728	894.578
Inventories		29.581	25.951
Derivatives used for hedging		859	666
Trade and other receivables		187.882	118.298
Assets classified as held for sale	6	306.185	125.169
Cash and cash equivalents		289.020	299.460
Current assets		813.527	569.544
Total assets		1.882.255	1.464.122
Equity			
Share capital		39.053	39.053
Share premium		133.513	133.513
Reserves	11	34.056	26.262
Retained earnings		217.622	271.034
Equity attributable to equity holders of the Company		424.244	469.862
Non-controlling interest		1.561	1.517
Total equity		425.805	471.379
Liabilities			
Loans and borrowings	12	207.732	147.513
Lease liabilities	4	166.786	0
Payables		5.125	14.554
Deferred tax liabilities		22.808	32.868
Non-current liabilities		402.451	194.935
Loans and borrowings	12	183.293	268.288
Lease liabilities	4	36.855	0
Derivatives used for hedging		14.521	39.660
Liabilities classified as held for sale	6	238.125	52.244
Trade and other payables		225.845	222.766
Deferred income		355.360	214.850
Current liabilities		1.053.999	797.808
Total liabilities		1.456.450	992.743
Total equity and liabilities		1.882.255	1.464.122

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Changes in Equity
for the period from 1 January to 31 March 2019

	Attributable to equity holders of the Company						
1 January to 31 March 2018	**Share capital**	**Share premium**	**Reserves**	**Retained earnings**	**Total**	**Non-con-trolling interest**	**Total equity**
Equity 1 January 2018	39.532	140.519	127.407	282.739	590.197	1.338	591.535
Impact of IFRS 15 correction				5.010	5.010		5.010
Restated Equity 1.1.2018	39.532	140.519	127.407	287.749	595.207	1.338	596.545
Purchase of treasury shares	(479)	(7.006)			(7.485)		(7.485)
Total comprehensive loss			7.564	(34.960)	(26.865)	(80)	(26.945)
Effects of profit or loss and dividend from subsidiaries			(38.456)	38.456			
Dividend (0.10 US cent per share)				(7.254)	(5.044)		(7.254)
Equity 31 March 2018	39.053	133.513	96.515	283.991	555.813	1.258	554.861
1 January to 31 March 2019							
Equity 1 January 2019	39.053	133.513	26.262	271.034	469.862	1.517	471.379
Total comprehensive loss			9.578	(55.196)	(45.618)	44	(45.574)
Effects of profit or loss and dividend from subsidiaries			(1.784)	1.784			
Equity 31 March 2019	39.053	133.513	34.056	217.622	424.244	1.561	425.805

Information on changes in reserves are provided in note 11.

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Cash Flows for the three months ended 31 March 2019

	Notes	2019 1.1.-31.3	2018 1.1.-31.3
Cash flows from operating activities:			
Loss for the period		(55.113)	(34.528)
Adjustments for:			
Depreciation and amortisation		44.911	28.002
Expensed deferred cost		0	1.998
Net finance costs		9.294	(1.408)
Gain on the sale of operating assets		(6.704)	(3.094)
Share in profit of associates		(405)	(1.266)
Income tax		(13.355)	(9.011)
		(21.372)	(19.307)
Changes in:			
Inventories, increase		(3.630)	(1.924)
Trade and other receivables, increase		(63.507)	(82.758)
Trade and other payables, decrease		26.308	25.083
Deferred income, increase		140.510	150.460
Cash generated from operating activities		99.681	90.861
Interest received		457	715
Interest paid		(5.825)	(5.154)
Net cash from operating activities		72.941	67.115
Cash flows used in investing activities:			
Acquisition of operating assets		(172.077)	(136.982)
Proceeds from the sale of operating assets		150.942	52.157
Acquisition of right-of-use assets		(8.468)	0
Acquisition of intangible assets		(1.032)	(664)
Capitalised deferred cost		0	(1.232)
Investment in associates		(1.462)	0
Non-current receivables, change		(8.681)	(31.966)
Cash attributable to assets held for sale		(12.814)	0
Short term investments, change		0	(10.472)
Net cash used in investing activities		(53.592)	(129.159)
Cash flows from financing activities:			
Purchase of treasury shares		0	(7.483)
Proceeds from non-current borrowing		79.799	0
Repayment of non-current borrowings		(88.940)	(2.664)
Repayment of lease debt	4	(6.451)	0
Proceeds from short term borrowings		(13.136)	40.949
Net cash from financing activities		(28.728)	30.802
Decrease in cash and cash equivalents		(9.379)	(31.242)
Effect of exchange rate fluctuations on cash held		(1.061)	1.308
Cash and cash equivalents at beginning of the period		299.460	221.191
Cash and cash equivalents at end of the period		289.020	191.257
Investment and financing without cash flow effect:			
Acquisition of right-of-use assets		(104.457)	0
New or renewed leases		104.457	0
Acquisition of operating assets		0	(52.506)
Non-current receivables		0	52.506
Dividend issued		0	(7.254)
Trade and other payables		0	7.254

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The condensed consolidated interim financial statements of the Company as at and for the three months ended 31 March 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates. The Group primarily operates in the airline transportation and tourism industry. The Company is listed on the Nasdaq Iceland.

The Group's consolidated financial statements as at and for the year ended 31 December 2018 are available upon request from the Company's registered office at Reykjavíkurflugvöllur in Reykjavík, Iceland or at its website address, www.icelandairgroup.is and at The Icelandic Stock Exchange website, www.nasdaqomx.com.

2. Basis of accounting

These interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting.* They do not include all the information requred for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2018.

These interim financial statements were approved for issue by the Board of Directors on 3 May 2019.

3. Use of judgements and estimates

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2018.

a. Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. The management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Group Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are catagorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

4. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated interim financial statements.

a. Adoption of new and revised Standards

In the current period, the Group, for the first time, has applied IFRS 16 Leases. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease requires and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Group's consolidated interim financial statements is described below.

The Group has applied IFRS 16 using the modified retrospective approach, with no restatement of comparative information. The Group has elected to apply the practical expedient to grandfather the definition of a lease on transition, and thereby applying IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

With the application of IFRS 16, the nature of expenses related to operating leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease. As a result, the application of IFRS 16 led to a increase in loss of the period ended 31 March 2019 by USD 1.7 million. The effects on line items in the Consolidated Statement of Comprehensive Income are as follows:

	Amounts without adoption of IFRS 16	Adjustment IFRS 16	2019 1.1.-31.3. As reported
Operating income			
Transport revenue	167.473	0	167.473
Aircraft and aircrew lease	27.432	(2.312)	25.120
Other operating revenue	56.083	(74)	56.009
Total operating income	250.988	(2.386)	248.602
Operating expenses			
Salaries and other personnel expenses	110.216	0	110.216
Aviation expenses	103.826	(12.545)	91.281
Other operating expenses	66.274	(4.501)	61.773
Total operating expenses	280.316	(17.046)	263.270
Operating profit before depr. and amortisation (EBITDA)	(29.328)	14.660	(14.668)
Depreciation and amortisation	(31.198)	(13.713)	(44.911)
Operating loss before net finance (costs) income	(60.526)	947	(59.579)
Net finance (costs) income	(6.184)	(3.110)	(9.294)
Loss before income tax	(66.305)	(2.163)	(68.468)
Income tax	12.922	433	13.355
Loss for the period	(53.383)	(1.730)	(55.113)

b. Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The lease payments included in the measurement of the lease liability comprise fixed payments less any incentives, variable lease payments that depend on an index or rate, expected residual guarantees and the excercise price of purchase options if the Group expects to excercise the option.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group remeasures the lease liability if the lease term has changed, when lease payments changes in an index or rate or when a lease contract is modified and the modification is not accounted for as a seperate lease.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

c. Aircraft maintenance of leased aircraft

Accounting of the maintenance on leased aircraft, the Group recognizes return obligation liabilities and provisions in respect of the required maintenance obligations within the framework of the lease of aircraft to lessors. The constitution of these return obligation liabilities and provisions depends on the type of maintenance obligations to fulfill before returning these aircraft to the lessors: overhaul and restoration work as well as airframe and engine potential reconstitution. These provisions also consist of compensation paid to lessors in respect of wear of the limited life parts in the engines.

- Overhaul and restoration works (not depending on aircraft utilization)
Costs resulting from work required to be performed just before returning aircraft to the lessors, such as painting of the shell or aircraft overhaul (“C Check”) are recognized as provisions as of the inception of the contract. The counterpart of these provisions is booked as a complement through the initial book value of the aircraft right-of-use assets. This complement to the right-of-use asset is depreciated over the lease term.
- Airframe and engine potentials reconstitution (depending on the utilization of the aircraft and its engines)
The airframe and the engine potentials are recognized as a complement to the right-of-use assets since they are considered as full-fledged components, as distinct from the physical components which are the engine and the airframe. These components are the counterparts of the return obligation liability, recognized in its totality at the inception of the contract. When maintenance events aimed at reconstituting these potentials take place, the costs incurred are capitalized. These potentials are depreciated over the period of use of the underlying assets (flight hours for the engine potentials component or straight-line for the airframe potentials component).
- Compensation related to limited life parts (engine components)
As the component approach is not applicable for limited life parts, costs related to the lessor’s compensation are booked progressively as provisions as they are used during the lease term and based upon contractual data (e.g. cost of a limited life part).

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient.

Right-of-use assets	Land & Real Estate	Aircraft	Other	Total
Recognised on initial application	198.106	69.690	1.068	268.864
Sublease agreements on inital application	(1.467)	(15.907)	(110)	(17.484)
Adjustments for indexed leases	815	0	4	819
New or renewed leases	0	112.721	204	112.925
Depreciation	(3.223)	(10.356)	(134)	(13.713)
Reclassified to assets held for sale	(173.687)	0	(89)	(173.776)
Currency translation adjustment	(9.429)	0	(3)	(9.432)
Balance at 31 March 2019	11.115	156.148	940	168.203

Lease liabilities

	2019 1.1.-31.3.
Recognised on initial application	289.723
Adjustments for indexed leases	819
New or renewed leases	112.925
Repayment of lease debt	(15.543)
Reclassified to liabilities held for sale	(175.631)
Next year payment of lease liabilities	(36.855)
Currency translation adjustment	(8.652)
Balance at 31 March 2019	166.786

Maturity analysis

	2019 1.1.-31.3.
Repayments in 2019 (9 months)	30.040
Repayments in 2020	23.487
Repayments in 2021	23.695
Repayments in 2022	22.510
Repayments in 2023	26.638
Subsequent repayments	77.271
Total lease liabilities	203.641

5. Operating segments

Segment information is presented in the consolidated financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure and is divided into three segments; International flight operations, Aviation investments and Tourism investments.

Inter-segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Passenger network

There are three subsidiaries within the passenger network segment. Icelandair, the international passenger airline, Air Iceland Connect, the domestic and regional carrier, and Fjarvakur, the shared service center. Icelandair´s route network is based on the Hub and Spoke concept between Europe and North America via Iceland, leveraging Iceland's geographical position. This successful strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed Icelandair to constantly grow and expand its route network over the past years. Icelandair's route network will in highseason 2019 connect 19 cities in North America with 23 cities in Europe with 479 connection possibilities.

Aviation services

There are three subsidiaries within the Aviation services segment. Loftleidir Icelandic, the leasing arm of the group, Icelandair Cargo, the cargo airline and VITA, an outgoing tour operator. They have access to the systems, vast experience and knowhow within Icelandair and the International Flight Operations bringing economy of scale to the whole operations.

Tourism services

There are two subsidiaries within the Tourism investment segment, Icelandair Hotels and Iceland Travel. Icelandair Hotels offers quality hotels both in Reykjavík and around the countryside. Iceland Travel is the largest incoming tour operator in Iceland.

Geographic information

The geographic information analyses the Group's revenue as the majority of the Group's clients are outside of Iceland. Vast majority of the Group's non-current assets are located in Iceland. In presenting the following information the Group's revenues have been based on geographic location of customers:

	2019 **1.1.-31.3.**	**2018** **1.1.-31.3.**
Revenues		
North America	30%	29%
Iceland	36%	38%
West Continental Europe	10%	9%
Scandinavia	6%	6%
United Kingdom	6%	9%
Other	12%	9%
Total revenues	100%	100%

5. continued:

Reportable segments for the three months ended 31 March 2019

	Passenger network	Aviation services	Tourism services	Total
External revenue	169.027	52.860	26.715	248.602
Inter-segment revenue	26.531	816	671	28.018
Segment revenue	195.558	53.676	27.386	276.620
Segment EBITDA	(26.346)	11.239	439	(14.668)
Finance income	1.538	412	12	1.962
Finance costs	(6.237)	(534)	(4.485)	(11.256)
Depreciation and amortisation	(32.392)	(7.446)	(5.073)	(44.911)
Share of profit of equity accounted investees	362	0	43	405
Reportable segment loss before tax	(63.075)	3.671	(9.064)	(68.468)
Reportable segment assets	2.097.069	147.287	314.775	2.559.131

Reportable segments for the three months ended 31 March 2018

External revenue	172.254	59.864	35.501	267.619
Inter-segment revenue	24.248	1.657	1.495	27.400
Segment revenue	196.502	61.521	36.996	295.019
Segment EBITDAR*	(20.803)	15.139	(636)	(6.300)
Operating lease expenses	(1.645)	(7.010)	(3.256)	(11.911)
Segment EBITDA	(22.448)	8.129	(3.892)	(18.211)
Finance income	5.333	754	8	6.095
Finance costs	(3.872)	(28)	(787)	(4.687)
Depreciation and amortisation	(25.864)	(579)	(1.559)	(28.002)
Share of profit of equity accounted investees	1.266	0	0	1.266
Reportable segment loss before tax	(45.585)	8.276	(6.230)	(43.539)
Reportable segment assets	2.081.012	103.273	70.421	2.254.706

*EBITDAR means EBITDA before operating lease expenses.

5. continued:

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities, and other material items

	2019 1.1.-31.3.	2018 1.1.-31.3.
Revenue		
Total revenue for reportable segments	276.620	295.019
Elimination of inter-segment revenue	(28.018)	(27.400)
Consolidated revenue	248.602	267.619
Profit or loss		
Consolidated loss before tax	(68.468)	(43.539)

Other material items	Reportable segment totals	Adjust-ments	Consoli-dated totals
1.1.-31.3. 2019			
Segment EBITDA	(14.668)		(14.668)
Finance income	1.962	(1.575)	387
Finance costs	(11.256)	1.575	(9.681)
Depreciation and amortisation	(44.911)		(44.911)
Share of profit of associates	405		405
Capital expenditure	173.109		173.109
1.1.-31.3. 2018			
Segment EBITDAR	(6.300)		(6.300)
Segment EBITDA	(18.211)		(18.211)
Finance income	6.095	(494)	5.601
Finance costs	(4.687)	494	(4.193)
Depreciation and amortisation	(28.002)		(28.002)
Share of profit of associates	1.266		1.266
Capital expenditure	138.878		138.878

6. Assets held for sale

Management has committed to a plan to sell its tourism services segment following a strategic decision to place greater focus on the Group's key competencies, i.e. the airline industry.

As these operations are deemed immaterial on the consolidated statement of comprehensive income, it is included and not shown separately as discontinued operations. In the consolidated statement of financial position, assets and liabilities of this segment are stated as held for sale. Comparative amounts have not been re-presented. The impact on the consolidated financial statements as a whole is presented below.

a. Impacts on consolidated financial statements

(i) Comprehensive loss for the tourism services

	2019 1.1.-31.3.	2018 1.1.-31.3.
Revenue	28.729	21.949
Elimination of inter-segment revenue	(2.026)	(2.713)
External revenue	26.703	19.236
Expenses	(37.813)	(25.871)
Elimination of expenses of inter-segment sales	2.026	2.713
External expenses	(35.787)	(23.158)
Loss from operating activities	(9.084)	(3.922)
Income tax	1.914	770
Loss from tourism services, net of tax	(7.170)	(3.152)
Basic loss per share in US cent per share	(0,15)	(0,07)
Diluted loss per share in US cent per share	(0,15)	(0,07)

(ii) Cash flows from (used in) tourism services

Net cash from operating activities	4.945	105
Net cash used in investing activities	(1.792)	(5.332)
Net cash (used in) from financing activities	(2.466)	2.391
Net cash flows for the period	687	(2.836)

(iii) Effect of possible disposal on the financial position of the Group

The assets and liabilities of the tourism services segment are presented as held for sale in the consolidated statements of financial position at end of March 2019 following a strategic decision by the Board. The hotel operation was held for sale at year end 2018. The carrying amounts of the major classes of assets and liabilities were as follows:

	31.3.2019	31.12.2018
Operating assets	98.368	102.491
Right-of-use assets	173.606	0
Intangible assets and goodwill	6.337	5.457
Investments in associates	1.043	1.055
Inventories	706	755
Trade and other receivables	13.310	11.377
Cash and cash equivalents	12.814	4.034
Deferred tax liabilities	(1.340)	(3.191)
Loans and borrowings	(33.831)	(35.644)
Lease liabilities	(175.631)	0
Trade and other payables	(15.753)	(8.683)
Deferred income	(11.569)	(4.726)
Net assets and liabilities	68.060	72.925

7. Operating income

Transport revenue is specified as follows:

	2019 1.1.-31.3.	2018 1.1.-31.3.
Passengers	135.442	141.971
Passenger ancillary revenues	17.553	16.178
Cargo and mail	14.478	14.985
Total transport revenue	167.473	173.134

Other operating revenue is specified as follows:

Sale in airport and hotels	18.609	19.841
Revenue from tourism	17.153	24.735
Aircraft and cargo handling services	5.287	5.753
Maintenance revenue	1.734	819
Gain on sale of operating assets	6.704	3.094
Other operating revenue	6.522	6.849
Total other operating revenue	56.009	61.091

8. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	74.077	73.107
Salary-related expenses	22.801	23.350
Other personnel expenses	13.338	16.672
Total salaries and personnel expenses	110.216	113.129

Aviation expenses are specified as follows:

Aircraft fuel	51.838	49.547
Aircraft lease	3.970	8.304
Aircraft handling, landing and communication	24.739	24.169
Aircraft maintenance expenses	10.734	18.672
Total aviation expenses	91.281	100.692

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures	4.460	8.697
Communication	7.191	5.883
Advertising	7.084	8.583
Booking fees and commission expenses	11.693	10.212
Cost of goods sold	3.037	3.581
Customer services	11.060	11.026
Tourism expenses	8.768	15.978
Allowance for bad debt	(45)	(917)
Other operating expenses	8.525	8.966
Total other operating expenses	61.773	72.009

9. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2019 1.1.-31.3.	2018 1.1.-31.3.
Interest income on bank deposits	329	431
Other interest income	(81)	354
Net foreign exchange gain	184	4.816
Finance income total	432	5.601
Interest expenses on loans and borrowings	6.128	3.950
Interest on lease liabilities	3.342	0
Other interest expenses	256	243
Finance costs total	9.726	4.193
Net finance costs	(9.294)	1.408

10. Operating assets

Aquisition of operating assets in Q1 2019 amounted to USD 172.1 million. Included are 2 Boeing 737 Max8 aircraft, 1 Boeing 737 Max9 aircraft, overhaul of own engines and aircraft spare parts in the amount of USD 164.4 million.

11. Equity

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Other reserves	Total reserves
Reserves 1.1.2018	13.914	42.240	71.253	127.407
Changes during the period	7.826	(262)	(38.456)	(30.892)
Reserves 31.3.2018	21.740	41.978	32.797	96.515
Reserves 1.1.2019	(26.434)	35.570	17.126	26.262
Changes during the period	15.074	(1.454)	(5.826)	7.794
Reserves 31.3.2019	(11.360)	34.116	11.300	34.056

12. Loans and borrowings

This note provides information on the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

	31.3.2019	31.12.2018
Non-current loans and borrowings are specified as follows:		
Secured bank loans	265.129	203.093
Unsecured loans	125.896	212.708
	391.025	415.801
Current maturities	(183.293)	(268.288)
Total non-current loans and borrowings	207.732	147.513

Terms and debt repayment schedule:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance 31.3.2019	Total remaining balance 31.12.2018
Secured bank loans	USD	4,7%	2022-2028	128.693	49.035
Secured bank loans	EUR	1,4%	2026-2028	70.029	72.983
Secured bank loans	ISK	5,7%	2023-2036	36.243	38.193
Unsecured bond issue	USD	4,9%	2019	125.896	212.708
Secured bank loans - short term	USD	6,0%	2019	30.164	30.022
Secured bank loans - short term	ISK			0	12.860
Total interest-bearing liabilities				391.025	415.801

13. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	2019	2018
Repayments in 2019 (9 months)(2018: 12 months)	177.159	268.287
Repayments in 2020	28.407	12.809
Repayments in 2021	28.516	12.919
Repayments in 2022	32.342	16.674
Repayments in 2023	41.398	26.494
Subsequent repayments	83.203	78.618
Total loans and borrowings	391.025	415.801

14. Financial instruments and fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows. The table does not include fair value information for financial assets and liabilities measured at fair value if the carrying amount is a reasonable approximation of fair value:

	31.3.2019		31.12.2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Unsecured bond issue	(125.896)	(134.768)	(212.708)	(198.171)
Secured loans	(265.129)	(264.829)	(203.093)	(221.058)
Total	(391.025)	(399.597)	(415.801)	(419.229)

15. Capital commitments

In 2013, Icelandair Group and Boeing signed an agreement for the purchase of 16 Boeing 737 Max8 and 737 Boeing Max9 aircraft with an option to purchase additional 8 aircrafts.

In 2018, Icelandair took delivery of the first 3 Boeing 737 Max8 aircraft from Boeing. In March 2019, Icelandair took delivery of 2 Boeing 737 Max8 and 1 Boeing 737 Max9. All 3 aircraft were financed through sale and leaseback agreements which generated a profit of USD 6.6 million which is included in operating income.

The delivery plan for future aircraft is as follows:	2019	2020	2021
Boeing 737 Max8	1	2	1
Boeing 737 Max9	2	3	1
Total	3	5	2

16. Group entities

The Company held ten subsidiaries at the end of March 2019.

	Share
Passenger network:	
A320 ehf.	100%
Air Iceland ehf.	100%
Fjárvakur - Icelandair Shared Services ehf.	100%
IceCap Ltd., Guernsey	100%
Iceeignir ehf.	100%
Icelandair ehf.	100%
Aviation services:	
Feria ehf.	100%
Loftleiðir - Icelandic ehf.	100%
Tourism services:	
Iceland Travel ehf.	100%
Icelandair Hotels ehf.	100%

The subsidiaries further own fourteen subsidiaries that are included in the consolidated interim financial statements. Four of those have non-controlling shareholders.

17. Ratios

The Group's primary ratios are specified as follows:

	31.3.2019	31.12.2018
Current ratio	0,77	0,71
Equity ratio	0,23	0,32
Intrinsic value of share capital	10,90	12,06

18. Significant accounting policies

The accounting policies and methods of computation applied in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2018 except for the changes stated in note 4.

These consolidated interim financial statements are presented in U.S. dollars (USD), which is the Group's functional currency. All financial information presented in USD has been rounded to the nearest thousand, except when otherwise indicated.

Icelandair Group hf.

Condensed Consolidated Interim Financial Statements

1 January - 31 March 2018

USD

Icelandair Group hf.
Reykjavíkurflugvöllur
101 Reykjavík
Iceland
Reg. no. 631205-1780

Contents

Endorsement and Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 31 March 2018 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements (IAS 34). The interim financial statements comprise the consolidated interim financial statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The condensed consolidated Interim financial statements are stated in thousands of USD.

According to the consolidated statement of comprehensive income, loss for the period from 1 January to 31 March 2018 amounted to USD 34.5 million. Total comprehensive loss for the period was USD 26.9 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 554.9 million, including share capital in the amount of USD 39.1 million. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity.

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements for the three months ended 31 March 2018 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. The condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent auditors.

According to our best knowledge it is our opinion that the condensed consolidated interim financial statements give a true and fair view of the financial performance of the Group for the three month period ended 31 March 2018, its assets, liabilities and consolidated financial position as at 31 March 2018 and its consolidated cash flows for the period then ended.

Further, in our opinion, the condensed consolidated interim financial statements and the endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 31 March 2018 and confirm them by means of their signatures.

Reykjavík, 30 April 2018.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board
Ásthildur M. Otharsdóttir
Guðmundur Hafsteinsson
Heiðrún Jónsdóttir
Ómar Benediktsson

CEO:

Björgólfur Jóhannsson

Consolidated Statement of Comprehensive Income
for the period from 1 January to March 31 2018

	Notes	2018 1.1.-31.3.	2017 1.1.-31.3. *Restated
Operating income			
Transport revenue	6	170.795	148.759
Aircraft and aircrew lease		33.394	20.627
Other operating revenue	6	63.430	52.689
		267.619	222.075
Operating expenses			
Salaries and other personnel expenses		113.129	86.261
Aviation expenses		100.692	81.546
Other operating expenses		72.009	64.245
	7	285.830	232.052
Operating loss before depreciation and amortisation (EBITDA)		(18.211)	(9.977)
Depreciation and amortisation		(28.002)	(25.887)
Operating loss before net finance income (costs) (EBIT)		(46.213)	(35.864)
Finance income		5.601	1.466
Finance costs		(4.193)	(3.410)
Net finance income (costs)	8	1.408	(1.944)
Share of profit of associates, net of tax		1.266	470
Loss before tax		(43.539)	(37.338)
Income tax		9.011	7.454
Loss for the period		(34.528)	(29.884)
Other comprehensive loss:			
Foreign currency translation differences of foreign operations		(243)	754
Effective portion of changes in fair value of cash flow hedge, net of tax		7.826	(13.955)
Other comprehensive profit (loss) for the period		7.583	(13.201)
Total comprehensive loss for the period		(26.945)	(43.085)
Loss attributable to:			
Owners of the Company		(34.429)	(29.949)
Non-controlling interest		(99)	65
Loss for the period		(34.528)	(29.884)
Total Comprehensive loss attributable to:			
Owners of the Company		(26.865)	(43.909)
Non-controlling interest		(80)	824
Total comprehensive loss for the period		(26.945)	(43.085)
Loss per share:			
Basic loss per share in US cent per share		(0,72)	(0,61)
Diluted loss per share in US cent per share		(0,72)	(0,61)

* See note 4

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Financial Position
as at 31 March 2018

	Notes	31.3.2018	31.12.2017 *Restated
Assets			
Operating assets	9	775.018	652.705
Intangible assets and goodwill		178.403	180.422
Investments in associates		31.923	29.629
Receivables and deposits		50.461	97.030
Non-current assets		1.035.805	959.786
Inventories		28.725	26.801
Derivatives used for hedging		27.719	18.450
Trade and other receivables		281.597	186.027
Assets held for sale		7.500	7.500
Short term investments		14.559	4.087
Cash and cash equivalents		191.257	221.191
Current assets		551.357	464.056
Total assets		1.587.162	1.423.842
Equity			
Share capital		39.053	39.532
Share premium		133.513	140.519
Reserves	10	96.515	127.407
Retained earnings		284.522	287.749
Equity attributable to equity holders of the Company		553.603	595.207
Non-controlling interest		1.258	1.338
Total equity		554.861	596.545
Liabilities			
Loans and borrowings	11	281.206	280.254
Payables		16.402	17.239
Deferred tax liabilities		52.784	60.885
Non-current liabilities		350.392	358.378
Loans and borrowings	11	48.692	9.287
Derivatives used for hedging		645	1.383
Trade and other payables		256.051	232.188
Deferred income		376.521	226.061
Current liabilities		681.909	468.919
Total liabilities		1.032.301	827.297
Total equity and liabilities		1.587.162	1.423.842

* See note 4

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Changes in Equity
for the period from 1 January to 31 March 2018

	Attributable to equity holders of the Company						
1 January to 31 March 2017	**Share capital**	**Share premium**	**Reserves**	**Retained earnings**	**Total**	**Non-con-trolling interest**	**Total equity**
Equity 1.1.2017	40.576	154.705	114.849	257.696	567.826	387	568.213
Impact of IFRS 15 correction				5.129	5.129		5.129
Restated Equity 1.1.2017	40.576	154.705	114.849	262.825	572.955	387	573.342
Purchase of treasury shares	(664)	(9.355)			(10.019)		(10.019)
Total comprehensive loss			(13.960)	(34.960)	(48.920)	824	(48.096)
Effects of profit or loss and dividend from subsidiaries			(23.163)	23.163			
Dividend (0.10 US cent per share)				(5.044)	(5.044)		(5.044)
Equity 31 March 2017	39.912	145.350	77.726	245.984	508.972	1.211	510.183
1 January to 31 March 2018							
Equity 1.1.2018	39.532	140.519	127.407	282.739	590.197	1.338	591.535
Impact of IFRS 15 correction				5.010	5.010		5.010
Restated Equity 1.1.2018	39.532	140.519	127.407	287.749	595.207	1.338	596.545
Purchase of treasury shares	(479)	(7.006)			(7.485)		(7.485)
Total comprehensive loss			7.564	(34.429)	(26.865)	(80)	(26.945)
Effects of profit or loss and dividend from subsidiaries			(38.456)	38.456			
Dividend (0.15 US cent per share)				(7.254)	(7.254)		(7.254)
Equity 31 March 2018	39.053	133.513	96.515	284.522	553.603	1.258	554.861

Information on changes in reserves are provided in note 10.

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Cash Flows for the three months ended 31 March 2018

	Notes	2018 1.1.-31.3	2017 1.1.-31.3 *Restated
Cash flows from operating activities			
Loss for the period		(34.528)	(29.884)
Adjustments for:			
Depreciation and amortisation		28.002	25.887
Expensed deferred cost		1.998	1.941
Net finance costs		(1.408)	1.944
Gain on the sale of operating assets		(3.094)	(70)
Share in profit of associates		(1.266)	(471)
Tax expense		(9.011)	(7.454)
		(19.307)	(8.107)
Changes in:			
Inventories, increase		(1.924)	(1.146)
Trade and other receivables, increase		(82.758)	(7.678)
Trade and other payables, decrease		25.083	(2.926)
Deferred income, increase		150.460	149.382
Cash generated from operating activities		90.861	137.632
Interest received		715	215
Interest paid		(5.154)	(4.243)
Net cash from operating activities		67.115	125.497
Cash flows used in investing activities:			
Acquisition of operating assets		(136.982)	(44.760)
Proceeds from the sale of operating assets		52.157	160
Acquisition of intangible assets		(664)	(1.680)
Capitalised deferred cost		(1.232)	(840)
Non-current receivables, change		(31.966)	(29.236)
Short term investments, change		(10.472)	574
Net cash used in investing activities		(129.159)	(75.782)
Cash flows from financing activities:			
Purchase of treasury shares		(7.483)	(10.019)
Dividend paid		0	(5.044)
Proceeds from non-current borrowing		0	40.000
Repayment of non-current borrowings		(2.664)	(3.695)
Proceeds from short term borrowings		40.949	2.278
Net cash from financing activities		30.802	23.520
(Decrease) increase in cash and cash equivalents		(31.242)	73.235
Effect of exchange rate fluctuations on cash held		1.308	48
Cash and cash equivalents at beginning of the period		221.191	226.889
Cash and cash equivalents at 31 March		191.257	300.172
Investment and financing without cash flow effect:			
Acquisition of operating assets		(52.506)	0
Non-current receivables		52.506	0
Dividend issued		(7.254)	0
Trade and other payables		7.254	0

* See note 4

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The condensed consolidated interim financial statements of the Company as at and for the three months ended 31 March 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group´s interests in associates. The Group primarily operates in the airline transportation and tourism industry. The Company is listed on the Nasdaq OMX Iceland.

The Group´s consolidated financial statements as at and for the year ended 31 December 2017 are available upon request from the Company's registered office at Reykjavíkurflugvöllur in Reykjavík, Iceland or at its website address, www.icelandairgroup.is and at The Icelandic Stock Exchange website, www.nasdaqomx.com.

2. Basis of accounting

These interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting.* They do not include all the information requred for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2017.

These interim financial statements were approved for issue by the Board of Directors on 30 April 2018.

3. Use of judgements and estimates

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017.

a. Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. The management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Group Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are catagorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

4. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated interim financial statements.

IFRS 9 “Financial instruments” is effective as of January 1, 2018, and replaces IAS 39 “Financial instruments: Recognition and Measurement”. The standard’s three main projects have been classification and measurement, impairment and hedge accounting. During 2017 Icelandair Group performed a review and an assessment of the effects on the financial assets and financial liabilities. There is no impact of IFRS 9 on the financial reporting for The Group and therefore no adjustment is needed.

The Group has adopted IFRS 15 *Revenue from Contracts with Customer* with a date of initial application of 1 January 2017. As a result, the Group has changed its accounting policy for revenue recognition as detailed below.

The Group applied IFRS 15 retrospectively (subject to practical expedient in the standard) with adjustments to all periods presented. The details and quantitative impact of the changes in accounting policies are disclosed below.

a. Service fees

For the charge of service fee, revenue was previously recognised when booking was made. Under IFRS 15, as there is only one performance obligation, revenue is recognised on the date of the flight.

b. Change fees

For the charge of change fee, revenue was previously recognised at the point the modification was made and the passanger charged. Under IFRS 15, while the change service may have economic value, it is highly interrelated with the service of providing the flight, and is not considered a distinct service. Change fee revenue is therefore recognised at the date of the flight.

c. Package tours

For sold package tours, revenue was previously recognised at first day of travel. Under IFRS 15, the total consideration in the service contracts is allocated to all services based on their stand-alone selling prices and revenue recognised as performance obligations are satisfied over time.

d. Commission, credit card fees and booking fees

The Group previously recognised commission fees, credit card fees and booking fees as selling expenses when they incurred. Under IFRS 15, the Group capitalises these fees as costs of obtaining a contract when they are incremental and - if they are expected to be recovered - it amortises them consistently with the pattern of revenue for the related contract.

e. Impacts on financial statements

(i) Consolidated Statement of Financial Position

The following table shows the change to the line items of the 31 December 2017 Consolidated statement of financial position by the adoption of IFRS 15:

	31.12.2017 Original	Adjustment IFRS 15	31.12.2017 Restated
Assets:			
Current assets			
Trade and other receivables	177.275	8.752	186.027
Current assets	455.304	8.752	464.056
Total assets	1.415.090	8.752	1.423.842

4. Changes in accounting policies (contd.)

Equity and liabilities

Equity			
Retained earnings	282.739	5.010	287.749
Total equity	282.739	5.010	287.749
Non-current liabilities			
Deferred tax liabilities	59.633	1.252	60.885
Total non-current liabilities	59.633	1.252	60.885
Current liabilities			
Deferred income	223.571	2.490	226.061
Total current liabilities	466.429	2.490	468.919
Total equity and liabilities	1.415.090	8.752	1.423.842

(ii) Consolidated Statement of Comprehensive Income

The following table shows the change to the line items of the 31 March 2017 Consolidated Statement of Comprehensive Income.

	2017 1.1.-31.3. Original	Adjustment IFRS 15	2017 1.1.-31.3. Restated
Operating income			
Transport revenue	149.056	(297)	148.759
Total operating income	222.372	(297)	222.075
Operating expenses			
Other operating expenses	70.806	(6.561)	64.245
Total operating expenses	238.613	(6.561)	232.052
Operating loss before depr. and amortisation (EBITDA)	(16.241)	6.264	(9.977)
Loss before income tax	(43.602)	6.264	(37.338)
Income tax	8.707	(1.253)	7.454
Loss for the period	(34.895)	5.011	(29.884)

(iii) Consolidated Statement of Cash Flows

The following table shows the change to the line items of the 31 March 2017 Consolidated Statement of Cash Flows

	2017 1.1.-31.3. Original	Adjustment IFRS 15	2017 1.1.-31.3. Restated
Cash flows from operating activities			
Loss for the period	(34.895)	5.011	(29.884)
Tax expense	(8.707)	1.253	(7.454)
Trade and other receivables, increase	(1.117)	(6.561)	(7.678)
Trade and other payables, (decrease) increase	(4.476)	1.550	(2.926)

4. Changes in accounting policies (contd.)

(iv) Impact of adopting IFRS 15 on the Group's interim Consolidated Statement of Comprehensive Income as at 31 March 2018

The following table shows the impact by the adoption of IFRS 15 on the Consolidated Statement of Comprehensive Income for the three months ended 31 March 2018:

	Amounts without adoption of IFRS 15	Adjustment IFRS 15	31.3.2018 As reported
Operating income			
Transport revenue	171.505	(710)	170.795
Total operating income	268.329	(710)	267.619
Operating expenses			
Other operating expenses	78.726	(6.717)	72.009
Total operating expenses	292.547	(6.717)	285.830
Operating loss before depr. and amortisation (EBITDA)	(24.218)	6.007	(18.211)
Loss before income tax	(49.546)	6.007	(43.539)
Income tax	10.212	(1.201)	9.011
Loss for the period	(39.334)	4.806	(34.528)

5. Operating segments

Segment information is presented in the consolidated financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure and is divided into three segments; International flight operations, Aviation investments and Tourism investments.

Inter-segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

International flight operations

The International flight operations are based on the Hub and Spoke concept between Europe and North America via Iceland, leveraging Iceland's geographical position. This successful strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed Icelandair to constantly grow and expand its route network over the past years. In 2017 Icelandair's international route networking connected 18 Cities in North America with 29 Cities in Europe and by that offering connectivity between 450 city pairs within the network. Additionally the route network is an invaluable asset for the Icelandic Tourism offering direct flights to Iceland from around 50 cities. Icelandic people and businesses also utilize the network and make a constant use of the frequent and diverse connections to Europe and North America.

The network is very important for the export and import industries in Iceland, wherein Icelandair Cargo utilizes the network and it's own freighters to offer reliable, frequent and quick transport of cargo.

Aviation investments

There are three subsidiaries within the Aviation investment segment. Loftleidir Icelandic, the leasing arm of the group, Air Iceland Connect, the domestic airline and VITA an outgoing tour operator. They have access to the systems, vast experience and knowhow within Icelandair and the International Flight Operations bringing economy of scale to the whole operations.

Tourism investments

There are two subsidiaries within the Tourism investment segment, Icelandair Hotels and Iceland Travel. Icelandair Hotels offers quality hotels both in Reykjavík and around the countryside. Iceland Travel is the largest incoming tour operator in Iceland. Both companies utilize Icelandair's international route network on a whole year basis.

Geographic information

The geographic information analyses the Group´s revenue as the majority of the Group's clients are outside of Iceland. Vast majority of the Group´s non-current assets are located in Iceland. In presenting the following information the Group's revenues have been based on geographic location of customers:

	2018 **1.1.-31.3.**	**2017** **1.1.-31.3.**
Revenues		
North America	29%	34%
Iceland	38%	27%
West Continental Europe	9%	10%
Scandinavia	6%	6%
United Kingdom	9%	10%
Other	9%	13%
Total revenues	100%	100%

5. contd.:

Reportable segments for the three months ended 31 March 2018

	International flight operations	Aviation investment	Tourism investment	Total
External revenue	179.836	52.282	35.501	267.619
Inter-segment revenue	24.462	1.443	1.495	27.400
Segment revenue	204.298	53.725	36.996	295.019
Segment EBITDAR*	(15.929)	10.265	(636)	(6.300)
Operating lease expenses	(2.445)	(6.210)	(3.256)	(11.911)
Segment EBITDA	(18.374)	4.055	(3.892)	(18.211)
Finance income	7.217	61	8	7.286
Finance costs	(3.358)	(1.733)	(787)	(5.878)
Depreciation and amortisation	(24.220)	(2.223)	(1.559)	(28.002)
Share of profit of equity accounted investees	1.266	0	0	1.266
Reportable segment loss before tax	(37.469)	160	(6.230)	(43.539)
Reportable segment assets	2.053.062	131.223	70.421	2.254.706

Reportable segments for the three months ended 31 March 2017

External revenue	154.596	35.594	31.885	222.075
Inter-segment revenue	17.654	1.208	1.190	20.052
Segment revenue	172.250	36.802	33.075	242.127
Segment EBITDAR*	(7.444)	6.861	(1.042)	(1.625)
Operating lease expenses	(2.253)	(3.513)	(2.586)	(8.352)
Segment EBITDA	(9.697)	3.348	(3.628)	(9.977)
Finance income	2.069	74	88	2.231
Finance costs	(2.600)	(1.262)	(313)	(4.175)
Depreciation and amortisation	(22.369)	(2.325)	(1.193)	(25.887)
Share of profit of equity accounted investees	352	0	118	470
Reportable segment loss before tax	(32.245)	(165)	(4.928)	(37.338)
Reportable segment assets	1.872.841	114.612	50.729	2.038.182

*EBITDAR means EBITDA before operating lease expenses.

5. contd.:

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities, and other material items

	2018 1.1.-31.3.	2017 1.1.-31.3.
Revenue		
Total revenue for reportable segments	295.019	242.127
Elimination of inter-segment revenue	(27.400)	(20.052)
Consolidated revenue	267.619	222.075
Profit or loss		
Consolidated loss before tax	(43.539)	(37.338)

Other material items	Reportable segment totals	Adjust-ments	Consoli-dated totals
1.1.-31.3. 2018			
Segment EBITDAR	(6.300)		(6.300)
Segment EBITDA	(18.211)		(18.211)
Finance income	7.286	(1.685)	5.601
Finance costs	(5.878)	1.685	(4.193)
Depreciation and amortisation	(28.002)		(28.002)
Share of profit of associates	1.266		1.266
Capital expenditure	191.384		191.384
1.1.-31.3. 2017			
Segment EBITDAR	(1.625)		(1.625)
Segment EBITDA	(9.977)		(9.977)
Finance income	2.231	(765)	1.466
Finance costs	(4.175)	765	(3.410)
Depreciation and amortisation	(25.887)		(25.887)
Share of profit of associates	470		470
Capital expenditure	47.280		47.280

6. Operating income

Transport revenue is specified as follows:

	2018 1.1.-31.3.	Restated 2017 1.1.-31.3.
Passengers	155.810	136.798
Cargo and mail	14.985	11.961
Total transport revenue	170.795	148.759

With the implementation of the new IFRS 15 revenue recognition standard, baggage fees that are sold as a seperate component are now included in passenger revenue but were before included in cargo and mail. Amounts from prior year has been restated accordingly.

Other operating revenue is specified as follows:

Sale in airplanes and hotels	22.180	21.570
Revenue from tourism	24.735	19.803
Aircraft and cargo handling services	5.753	3.998
Maintenance revenue	819	652
Gain on sale of operating assets	3.094	70
Other operating revenue	6.849	6.596
Total other operating revenue	63.430	52.689

7. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	73.107	56.548
Salary-related expenses	23.350	15.823
Other personnel expenses	16.672	13.890
Total salaries and personnel expenses	113.129	86.261

Aviation expenses are specified as follows:

Aircraft fuel	49.547	37.857
Aircraft lease	8.304	5.575
Aircraft handling, landing and communication	24.169	20.286
Aircraft maintenance expenses	18.672	17.828
Total aviation expenses	100.692	81.546

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures	8.697	6.509
Communication	5.883	5.979
Advertising	8.583	8.490
Booking fees and commission expenses	10.212	9.537
Cost of goods sold	6.035	5.871
Customer services	8.572	6.186
Tourism expenses	15.978	12.717
Allowance for bad debt	(917)	176
Other operating expenses	8.966	8.780
Total other operating expenses	72.009	64.245

8. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2018 1.1.-31.3.	2017 1.1.-31.3.
Interest income on bank deposits	431	153
Other interest income	354	459
Net foreign exchange gain	4.816	854
Finance income total	5.601	1.466
Interest expenses on loans and borrowings	3.950	3.183
Other interest expenses	243	227
Net foreign exchange loss	0	0
Finance costs total	4.193	3.410
Net finance costs	1.408	(1.944)

9. Operating assets

Aquisition of operating assets in the first three months of 2018 amounted to USD 189.5 million. Included are 3 Boeing 737 Max8 aircraft, 2 Boeing 757 aircraft, overhaul of own engines and aircraft spare parts in the amount of USD 173.3 million.

10. Equity

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Other reserves	Total reserves
Reserves 1.1.2017	16.423	34.524	63.902	114.849
Changes during the period	(13.955)	(5)	(23.163)	(37.123)
Reserves 31.3.2017	2.468	34.519	40.739	77.726
Reserves 1.1.2018	13.914	42.240	71.253	127.407
Changes during the period	7.826	(262)	(38.456)	(30.892)
Reserves 31.3.2018	21.740	41.978	32.797	96.515

11. Loans and borrowings

This note provides information on the contractual terms of the Group´s interest-bearing loans and borrowings, which are measured at amortised cost.

	31.3.2018	31.12.2017
Non-current loans and borrowings are specified as follows:		
Secured bank loans	66.948	65.786
Unsecured loans	262.950	223.755
	329.898	289.541
Current maturities	(48.692)	(9.287)
Total non-current loans and borrowings	281.206	280.254

Terms and debt repayment schedule:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance 31.3.2018	31.12.2017
Secured bank loans	USD	5,2%	2018-2024	11.008	12.202
Secured bank loans	EUR	2,7%	2026	7.501	7.285
Secured bank loans	ISK	5,2%	2019-2036	43.311	41.146
Secured bank loans, indexed	ISK	4,3%	2023	1.810	1.706
Unsecured bond issue	USD	4,9%	2020-2021	212.446	212.361
Unsecured bond issue, indexed	ISK	5,7%	2023	10.342	11.394
Unsecured bank loans - short term	USD	5,4%	2018	40.162	0
Secured bank loans - short term	USD	5,2%	2018	3.318	3.447
Total interest-bearing liabilities				329.898	289.541

12. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	2018	2017
Repayments in 2018 (9 months)(2017: 12 months)	46.582	9.287
Repayments in 2019	43.893	41.723
Repayments in 2020	27.165	27.015
Repayments in 2021	193.689	193.534
Repayments in 2022	7.743	7.573
Subsequent repayments	10.826	10.409
Total loans and borrowings	329.898	289.541

13. Financial instruments and fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows. The table does not include fair value information for financial assets and liabilities measured at fair value if the carrying amount is a reasonable approximation of fair value:

	31.3.2018		31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives, included in loans and receivables	27.074	27.074	17.067	17.067
Short term investments	14.559	14.559	4.087	4.087
Unsecured bond issue	(262.950)	(283.084)	(223.755)	(246.238)
Secured loans	(66.948)	(69.639)	(65.786)	(68.504)
Total	(288.265)	(311.090)	(268.387)	(293.588)

14. Off-balance sheet items

As a lessee the Group has in place operating leases for storage facilities, hotels, equipment, the longest until the year 2041. The Group has also in place operating leases for aircraft, the longest until the year 2027. At the end of March 2018 the leases are payable as follows in nominal amounts for each year:

	Real estate	Aircraft	Other	Total 31.3.2018
In Q2 - Q4 2018	18.311	14.793	10.735	43.839
In the year 2019	27.570	24.885	4.794	57.249
In the year 2020	27.126	25.568	4.286	56.980
In the year 2021	26.224	20.412	3.050	49.686
In the year 2022	25.870	18.882	3.206	47.958
Subsequent	307.174	80.851	42.548	430.573
Total	432.275	185.391	68.619	686.285

15. Capital commitments

In 2013 Icelandair Group and Boeing signed an agreement for the purchase of sixteen 737 MAX8 and 737 MAX9 aircraft with an option to purchase additional eight aircraft.

In March 2018 Icelandair took delivery of the first three 737 MAX8 aircraft from Boeing. Two of them have been financed with a JOLCO (Japanese Operating Lease with Call Option) and the third was sold and leased back from a lessor for a period of 8 years and 8 months. The sale generated a profit of 2.1 million USD which is included in operating income. The lease obligation from the contract is included in note 14.

The delivery plan for future aircraft is as follows:

	2019	2020	2021
Boeing 737 Max 8	3	2	1
Boeing 737 Max 9	3	3	1
Total	6	5	2

16. Group entities

The Company held ten subsidiaries at the end of March 2018 which is a decrease of two from year end 2017. In beginning of January 2018, the Company merged IGS ehf. with Icelandair and sold Icelandair Cargo ehf. to Icelandair ehf. The subsidiaries included in the consolidated interim financial statements are as follows:

	Share
International Flight Operations:	
A320 ehf.	100%
Fjárvakur - Icelandair Shared Services ehf.	100%
IceCap Ltd., Guernsey	100%
Iceeignir ehf.	100%
Icelandair ehf.	100%
Aviation investments:	
Air Iceland ehf.	100%
Feria ehf.	
Loftleiðir - Icelandic ehf.	100%
Tourism investments:	
Iceland Travel ehf.	100%
Icelandair Hotels ehf.	100%

The subsidiaries further own thirteen subsidiaries that are included in the consolidated interim financial statements. Three of those have non-controlling shareholders.

17. Ratios

The Group's primary ratios are specified as follows:

	31.3.2018	31.12.2017
Current ratio	0,81	0,99
Equity ratio	0,35	0,42
Intrinsic value of share capital	14,21	15,08

18. Significant accounting policies

The accounting policies and methods of computation applied in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2017 except for the changes stated in note 4.

These consolidated interim financial statements are presented in U.S. dollars (USD), which is the Company's functional currency. All financial information presented in USD has been rounded to the nearest thousand, except when otherwise indicated.

Icelandair Group hf.

Consolidated Financial Statements for the year 2018

USD

Icelandair Group hf.
Reykjavíkurflugvöllur
101 Reykjavík
Iceland
Reg. no. 631205-1780

Contents

Endorsement and Statement by the Board of Directors and the CEO

Operations in the year 2018

These financial statements comprise the consolidated financial statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The Group operates in the airline and tourism sectors with Iceland as a cornerstone of an international route network.

Loss for the year 2018 amounted to USD 55.6 million and total comprehensive loss amounted to USD 110.4 million according to the consolidated statement of comprehensive income. Total equity at year end 2018 amounted to USD 471.4 million, including share capital of USD 39.1 million, according to the consolidated statement of financial position. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity during the year.

During the year management committed to sell its Hotel operation following a strategic decision to place greater focus on the Group's key competencies, i.e. the airline industry.

The Board of Directors proposes no dividend payment to shareholders in 2019 for the year 2018.

At the Icelandair Group shareholders' meeting on 30 November 2018 a proposal was passed to grant the Company's Board of Directors authorization to increase share capital by up to ISK 625 million in nominal value. The Board of Directors has decided to organise a single offering of shares in nominal value of up to ISK 625 million. The offering will solely be for holders of pre-emptive rights to shares in the Company and is estimated to take place before end of April 2019. Prior to the offering a full prospectus will be published. The Board of Directors will determine the size, share price, conditions of payment and other terms of the offering.

The objective of the share capital increase is to further solidify Icelandair Group's financial position, preparing the Company for further growth and making it capable to seize opportunities that may present themselves in the current operational climate where Icelandair Group will be supplied with six new Boeing MAX aircraft in 2019. The Company's current operational and financial outlook, as presented at the recent shareholders' meeting, relinquishes the need for a share capital increase before year-end as previously proposed. The proposed timeframe acts to reduce the uncertainty concerning the Company's competitive environment as well as allowing for more detailed information to be distributed to shareholders prior to the offering.

Share capital and Articles of Association

The nominal value of the Company's issued share capital amounted to ISK 5.0 billion at year-end, of which the Company held treasury shares of ISK 187.3 million. The share capital is divided into shares of ISK 1, each with equal rights within a single class of shares listed on the Icelandic Stock Exchange (Nasdaq OMX Iceland). Companies can acquire and hold up to 10% of the nominal value of treasury shares according to the Icelandic Company's Act. During the year the Company purchased 47.9 million shares for USD 7.5 million according to a share purchase program authorised at the Company's Annual General Meeting.

The Company's Board of Directors comprises five members, two women and three men. The gender ratio is thus in accordance with Laws requiring companies with over 50 employees to ensure that the Board has representation from both genders and each gender is at least 40% when there are more than three Board members. The Board members are elected at the annual general meeting for a term of one year. Those persons willing to stand for election must give formal notice thereof to the Board of Directors at least seven days before the annual general meeting.

The Company's Articles of Association may only be amended at a legitimate shareholders' meeting, provided that amendments and their main aspects are clearly stated in the invitation to the meeting. A resolution will only be valid if it is approved by at least 2/3 of votes cast and is approved by shareholders controlling at least 2/3 of the share capital represented at the shareholders' meeting.

Endorsement and statement by the Board of Directors and the CEO, contd.:

The number of shareholders at year end 2018 was 3,016 an increase of 623 during the year. At year end 2018 the 10 largest shareholders were:

Name	Shares in ISK thousand	Shares in %
Lífeyrissjóður verslunarmanna	694.361	13,89
Stefnir Sjóðir	592.212	11,84
Lífeyrissjóður starfsmanna ríkisins A deild og B deild	488.613	9,77
Gildi - lífeyrissjóður	393.761	7,88
Birta lífeyrissjóður	369.158	7,38
Stapi lífeyrissjóður	211.350	4,23
Frjálsi lífeyrissjóðurinn	152.555	3,05
Kvika Banki - Safnreikningur	100.238	2,00
Landsbréf - Úrvalsbréf	96.311	1,93
Brú - Lífeyrissjóður starfsmanna sveitarfélaga	96.137	1,92
	3.194.696	63,89
Other shareholders	1.617.965	32,36
Treasury shares	187.339	3,75
	5.000.000	100,00

Further information on matters related to share capital is disclosed in note 27. Additional information on shareholders is provided on the Company's website www.icelandairgroup.com.

Corporate Governance

The Group's management is of the opinion that practicing good Corporate Governance is vital for the existence of the Group and in the best interests of the shareholders, Group companies, employees and other stakeholders and will in the long run produce satisfactory returns on shareholders' investment. Corporate Governance exercised within Icelandair Group hf. ensures sound and effective control of the Company´s affairs and a high level of business ethics.

The framework for Corporate Governance practices within the Group consists of the provisions of law, the parent Company's Articles of Association, general securities regulations and the Icelandic Corporate Governance guidelines issued by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and the Confederations of Icelandic Employers. Corporate Governance practices ensure open and transparent relationships between the Company´s management, its Board of Directors, its shareholders and other stakeholders.

The Board of Directors has prepared a Corporate Governance Statement in compliance with the Icelandic Corporate Governance guidelines which are described in full in the Corporate Governance Statement in the consolidated financial statements. It is the opinion of the Board of Directors that Icelandair Group hf. complies with the Icelandic guidelines for Corporate Governance.

Information on matters related to financial risk management is disclosed in note 33.

Non-Financial Reporting

According to Icelandic Financial Statements Act companies should disclose, in their management report, relevant and useful information on their policies, main risks and outcomes relating to at least environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues in addition to a short description of the Company's business model. The Company's policies and outcome of these matters are further discussed in the Non-Financial Reporting in the consolidated financial statements.

Endorsement and statement by the Board of Directors and the CEO, contd.:

Statement by the Board of Directors and the CEO

The consolidated financial statements for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for financial statements of listed companies.

According to our best knowledge it is our opinion that the annual consolidated financial statements give a true and fair view of the consolidated financial performance of the Group for the year 2018, its assets, liabilities and consolidated financial position as at 31 December 2018 and its consolidated cash flows for the year 2018.

Further, in our opinion, the consolidated financial statements and the endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the consolidated financial statements of Icelandair Group hf. for the year 2018 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the consolidated financial statements will be approved at the annual general meeting of Icelandair Group hf.

Reykjavík, 7 February 2019.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board
Ásthildur Margrét Otharsdóttir
Guðmundur Hafsteinsson
Heiðrún Jónsdóttir
Ómar Benediktsson

CEO:

Bogi Nils Bogason

Independent Auditors' Report

To the board of directors and shareholders of Icelandair Group hf.

Report on the audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Icelandair Group hf. "the Group", which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional disclosure requirements for listed companies in Iceland.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of consolidated financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit responded to the key audit matter
Timing and accuracy of revenue recognition of passenger income *Reference is made to note 8 "Operating income" and 32 "Deferred income".* Passenger ticket sale is presented as deferred income in the consolidated statement of financial position until transportation has been provided and at that time the sale is recognized as revenue. Large volume of transactions flow through various computer systems from the date of sale until revenue is recognized in the consolidated statement of profit or loss. The recording process is complex which gives rise to an inherent risk of error, in determining the amount and timing of the revenue recognition. Timing and accuracy in the registration of passenger income is therefore one of the key audit matters of our audit of the consolidated financial statements.	Our audit procedures were designed to challenge the accuracy of the revenue recognition. These procedures include testing of controls over the Group's systems which govern the passenger ticket sale. We used the service of our IT specialists to test selected appropriate controls such as access control, change management control and automated controls of the revenue systems. We also tested non-automated controls. The purpose of the testing was to assess if the design of the controls was likely to ensure the accuracy and timing of the revenue recognition of passenger income and to test operating effectiveness of selected controls. We analysed passenger revenue and used external and internal information to set expectations which were compared to recognized revenue. We used substantive testing including a reconciliation between systems, testing of selected journal entries posted to revenue accounts and we tested the inclusion of revenue transactions in the appropriate period by testing selected flights before and after the the reporting date.

Key audit matter	How our audit responded to the key audit matter
Expected recoverable amount of intangible assets and goodwill *Reference is made to note 17 "Intangible assets and goodwill" and 43o "Impairment".* The carrying value of goodwill amounted to USD 140.4 million and other intangible assets USD 37.2 million at year end 2018 as specified in note 17. The carrying value of intangible assets has been allocated to the applicable cash generating units within the Group. Management is required to perform an impairment test annually on goodwill and other intangible assets with indefinite useful lives. The purpose of an impairment test is to determine if goodwill and other intangible assets can be recovered through future cash flows. The recoverable amounts of individual cash generating units are determined by discounting the expected future cash flows generated from the continuing use of the units. The expected recoverable amount of intangible assets is one of the key audit matters due to the significance to the Group's consolidated statement of financial position, and due to inherent uncertainty involved in forecasting and discounting future cash flows which are the basis of the assessment of the recoverability of the intangible assets.	We used the service of our valuation specialists to assess the valuation models and assumptions used by management in their calculations of expected recoverable amount of each cash generating unit. We assessed management assumptions by comparing them to both internal and external industry information. Our procedures included among others: - Management forecasts for each cash generating unit for the explicit period were compared to forecasts presented to the Board, historic revenue amounts, growth rates and historic industry statistics. Forecasts from prior periods were also compared to actual results to test its accuracy. - Assessing the reasonableness of management forecasts of the long term growth rate. - Assessing the reasonableness of management forecasts for changes in margins, new investments, utilization and changes in pricing. - Assessing the reasonableness of the discount rates applied by comparing them to current finance cost and market conditions for the cash generating units. - Review of information in the notes to the financial statements to confirm that all information required by applicable accounting policies were provided.

Other information

The Board of Directors and CEO are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. The annual report is not available at our reporting date but is expected to be made available to us after that date.

Independent Auditors' Report, contd.:

Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union and additional disclosure requirements for listed companies in Iceland, financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and CEO are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and CEO are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report, contd.:

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and were applicable, related safeguards.

From the matters communicated with The Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statements Act no. 3/2006, we confirm that, to the best of our knowledge, the statement by the Board of Directors and the CEO accompanying the consolidated financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the consolidated financial statements.

The engagement partner on the audit resulting in this independent auditor's report is Auður Þórisdóttir.

Reykjavik, 7 February 2019.

KPMG ehf.

Auður Þórisdóttir
Hjördís Ýr Ólafsdóttir

Consolidated statement of profit or loss and other comprehensive income for the year 2018

	Notes	2018	2017 *Restated
Operating income			
Transport revenue	8	1.093.314	1.050.101
Aircraft and aircrew lease		120.113	87.701
Other operating revenue	8	297.091	280.185
		1.510.518	1.417.987
Operating expenses			
Salaries and other personnel expenses		515.872	445.162
Aviation expenses		552.669	456.012
Other operating expenses		365.498	346.737
	9	1.434.039	1.247.911
Operating profit before depreciation and amortisation (EBITDA)		76.479	170.076
Depreciation and amortisation	11	(133.447)	(120.431)
Operating (loss) profit (EBIT)		(56.968)	49.645
Finance income		8.578	14.083
Finance costs		(21.172)	(15.678)
Net finance costs	12	(12.594)	(1.595)
Share of profit of associates	19	1.752	592
(Loss) profit before tax		(67.810)	48.642
Income tax	22	12.240	(11.104)
(Loss) profit for the year		(55.570)	37.538
Other comprehensive (loss) income			
Items that are or may be reclassified to profit or loss			
Currency translation differences		(6.745)	8.448
Cash flow hedges - effective portion of changes in fair value, net of tax		(40.339)	(2.509)
Net loss on hedge of investment, net of tax		(7.773)	0
Other comprehensive (loss) income for the year		(54.857)	5.939
Total comprehensive (loss) income for the year		(110.427)	43.477
Owners of the Company		(55.815)	37.438
Non-controlling interests		245	100
(Loss) profit for the year		(55.570)	37.538
Total Comprehensive (loss) income attributable to:			
Owners of the Company		(110.606)	42.526
Non-controlling interests		179	951
Total comprehensive (loss) income for the year		(110.427)	43.477
(Loss) earnings per share:			
Basic (loss) earnings per share in US cent per share	28	(1,16)	0,75
Diluted (loss) earnings per share in US cent per share	28	(1,16)	0,75

*See note 5

The notes on pages 14 to 55 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position as at 31 December 2018

	Notes	2018	2017 *Restated
Assets:			
Operating assets	13-16	673.420	652.705
Intangible assets and goodwill	17-18	177.568	180.422
Investments in associates	19	26.134	29.629
Deferred cost	20	91	0
Receivables and deposits	21	17.365	97.030
Non-current assets		894.578	959.786
Inventories	23	25.951	26.801
Derivatives used for hedging	34	666	18.450
Trade and other receivables	24	118.298	186.027
Assets held for sale	7	125.169	7.500
Short term investments	25	0	4.087
Cash and cash equivalents	26	299.460	221.191
Current assets		569.544	464.056
Total assets		1.464.122	1.423.842
Equity:			
Share capital		39.053	39.532
Share premium		133.513	140.519
Reserves		26.262	127.407
Retained earnings		271.034	287.749
Equity attributable to equity holders of the Company	27	469.862	595.207
Non-controlling interests		1.517	1.338
Total equity		471.379	596.545
Liabilities:			
Loans and borrowings	29	147.513	280.254
Payables	30	14.554	17.239
Deferred tax liabilities	22	32.868	60.885
Non-current liabilities		194.935	358.378
Loans and borrowings	29	268.288	9.287
Derivatives used for hedging	34	39.660	1.383
Liabilities held for sale	7	52.244	0
Trade and other payables	31	222.766	232.188
Deferred income	32	214.850	226.061
Current liabilities		797.808	468.919
Total liabilities		992.743	827.297
Total equity and liabilities		1.464.122	1.423.842

*See note 5

The notes on pages 14 to 55 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year 2018

	Attributable to equity holders of the Company						
2017	**Share capital**	**Share premium**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2017	40.576	154.705	114.849	257.696	567.826	387	568.213
Impact of IFRS 15 implementation				5.129	5.129		5.129
Restated Balance at 1 January 2017	40.576	154.705	114.849	262.825	572.955	387	573.342
Purchase of treasury shares	(1.044)	(14.186)			(15.230)		(15.230)
Total comprehensive income			5.207	37.319	42.526	951	43.477
Profit of subsidiaries and associates in excess of dividend received			7.351	(7.351)			
Dividend (0.54 USD cent per share)				(5.044)	(5.044)		(5.044)
Balance at 31 December 2017	39.532	140.519	127.407	287.749	595.207	1.338	596.545
2018							
Balance at 1 January 2018	39.532	140.519	127.407	282.739	590.197	1.338	591.535
Impact of IFRS 15 implementation				5.010	5.010		5.010
Restated Balance at 1 January 2018	39.532	140.519	127.407	287.749	595.207	1.338	596.545
Purchase of treasury shares	(479)	(7.006)			(7.485)		(7.485)
Total comprehensive loss			(54.790)	(55.816)	(110.606)	179	(110.427)
Loss of subsidiaries and associates in excess of dividend received			(46.355)	46.355			
Dividend (0.15 USD cent per share)				(7.254)	(7.254)		(7.254)
Balance at 31 December 2018	39.053	133.513	26.262	271.034	469.862	1.517	471.379

Information on impact of IFRS 15 implementation is provided in note 5.
Information on changes in other reserves is provided in note 27.

The notes on pages 14 to 55 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year 2018

	Notes	2018	2017 *Restated
Cash flows from operating activities:			
(Loss) profit for the year		(55.570)	37.538
Adjustments for:			
Depreciation and amortisation	11	133.447	120.431
Expensed deferred cost		9.991	10.051
Net finance costs		12.594	1.595
(Gain) loss on sale of operating assets		(4.767)	264
Gain on sale of investments		(710)	0
Share in profit of associates		(1.752)	(592)
Tax expense		(12.240)	11.104
		80.993	180.391
Changes in:			
Inventories, decrease (increase)		850	(2.838)
Trade and other receivables, (increase) decrease		(8.577)	10.400
Trade and other payables, increase		29.077	15.816
Deferred income, (decrease) increase		(11.211)	25.225
Cash generated from operating activities		10.139	48.603
Interest received		2.642	3.354
Interest paid		(23.546)	(16.618)
Income taxes paid		(8.675)	(10.127)
Net cash from operating activities		61.553	205.603
Cash flows to investing activities:			
Acquisition of operating assets	13	(263.900)	(149.213)
Proceeds from sale of operating assets		52.719	1.415
Acquisition of intangible assets	17	(2.749)	(5.661)
Deferred cost, change		(4.602)	(4.176)
Investment in subsidiaries and associates		0	(3.335)
Non-current receivables, change		88.546	(86.661)
Cash attributable to assets held for sale	7	(4.034)	0
Short term investments, change		4.087	19.212
Net cash used in investing activities		(129.933)	(228.419)
Cash flows to financing activities:			
Purchase of treasury shares	27	(7.485)	(15.230)
Dividend paid		(7.254)	(5.044)
Proceeds from loans and borrowings	29	143.424	45.384
Repayment of loans and borrowings	29	(18.783)	(10.556)
Short term loans, change	29	39.434	0
Net cash from financing activities		149.336	14.554
Increase (decrease) in cash and cash equivalents		80.956	(8.262)
Effect of exchange rate fluctuations on cash held		(2.687)	2.564
Cash and cash equivalents at beginning of the year		221.191	226.889
Cash and cash equivalents at 31 December	26	299.460	221.191
Investment and financing without cash flow effect:			
Acquisition of operating assets		(60.177)	(7.081)
Acquisition of intangible assets		(4.563)	0
Proceeds from sale of operating assets		1.237	0
Investment in subsidiaries and associates		4.573	0
Non-current receivables		52.506	0
Proceeds from loans and borrowings	29	6.424	7.081

*See note 5

The notes on pages 14 to 55 are an integral part of these consolidated financial statements.

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The address of the Company´s registered office is at Reykjavíkurflugvöllur in Reykjavík, Iceland. The consolidated financial statements for the Company as at and for the year ended 31 December 2018 comprise the Company and its subsidiaries, together referred to as the "Group" and individually as "Group entities" and the Group´s interests in associates. The Group primarily operates in the airline and tourism industry. The Company is listed on the Nasdaq OMX Iceland.

2. Basis of accounting

a. Statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. They were authorised for issue by the Company's board of directors on 7 February 2019.

b. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, part of deferred income and certain short-term investments are stated at their fair values. Details of the Group's accounting policies are included in Note 43.

This is the first set of the Group's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 5.

3. Functional and presentation currency

The Company's functional currency is U.S. dollars (USD). These Consolidated financial statements are presented in U.S dollars (USD), except for information in note 38 on salaries and benefits of management for their service to Group companies. Payments to management are denominated and presented in ISK. All financial information presented in USD has been rounded to the nearest thousand, unless otherwise indicated.

4. Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2018 is included in the following notes:

Note 18 - measurement of the recoverable amounts of cash-generating units;
Note 32 - deferred income;
Note 34 - Financial instruments and values.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. The Director of Risk Management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

4. contd.:

The Risk Committee regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 25 - short term investments;
Note 32 - deferred income;
Note 34 - derivatives;
Note 34 - non-derivative financial liabilities.

5. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 "Financial instruments" became effective as of January 1, 2018, and replaced IAS 39 "Financial instruments: Recognition and Measurement". The standard's three main projects are classification and measurement, impairment and hedge accounting. In 2017 Icelandair Group performed a review and an assessment of the effects on financial assets and liabilities.

The table below explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and liabilities as at 1 January 2018. There is no impact of IFRS 9 on the financial reporting for The Group and therefore no adjustment is needed.

	Original classification under IAS 39	**New classification under IFRS 9**
Short term investments	Held for trading	Mandatorily at FVTPL*
Receivables and deposits	Loans and receivables	Amortised cost

*FVTPL means Fair value through profit or loss

5. contd.:

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 *Revenue from Contracts with Customer* with a date of initial application of 1 January 2017. As a result, the Group has changed its accounting policy for revenue recognition as detailed below.

The Group applied IFRS 15 retrospectively with adjustments to all periods presented. The details and quantitative impact of the changes in accounting policies are disclosed below.

a. Service fees

Revenue for service fee was previously recognised when booking was made. Under IFRS 15, as there is only one performance obligation, revenue is recognised on the date of the flight.

b. Change fees

Revenue for change fee was previously recognised when the modification was made and the passenger charged. Under IFRS 15, while the change service may have economic value, it is highly interrelated with the service of providing the flight, and is not considered a distinct service. Change fee revenue is therefore recognised at the date of the flight.

c. Package tours

Revenue for sold package tours was previously recognised at the first day of travel. Under IFRS 15, the total consideration in the service contracts is allocated to all services based on their stand-alone selling prices and revenue recognised as performance obligations are satisfied over time.

d. Commission, credit card fees and booking fees

The Group previously recognised commission fees, credit card fees and booking fees as selling expenses when they incurred. Under IFRS 15, the Group capitalises these fees as costs of obtaining a contract when they are incremental and if they are expected to be recovered, it amortises them consistently with the pattern of revenue for the related contract.

e. Impacts on consolidated financial statements

(i) **Consolidated Statement of Financial Position**

The following table shows the change to the line items of the 31 December 2017 consolidated statement of financial position by the adoption of IFRS 15.

	31.12.2017 Original	Adjustment IFRS 15	31.12.2017 Restated
Assets:			
Current assets:			
Trade and other receivables	177.275	8.752	186.027
Current assets	455.304	8.752	464.056
Total assets	1.415.090	8.752	1.423.842
Equity and liabilities:			
Equity:			
Retained earnings	282.739	5.010	287.749
Total equity	591.535	5.010	596.545
Non-current liabilities:			
Deferred tax liabilities	59.633	1.252	60.885
Total non-current liabilities	357.126	1.252	358.378
Current liabilities:			
Deferred income	223.571	2.490	226.061
Total current liabilities	466.429	2.490	468.919
Total equity and liabilities	1.415.090	8.752	1.423.842

5. contd.:

(ii) **Consolidated Statement of Comprehensive Income**

The following table shows the change to the line items of the consolidated statement of comprehensive income during the year 2017 by adopting IFRS 15.

	2017 Original	Adjustment IFRS 15	2017 Restated
Operating income			
Transport revenue	1.033.268	16.833	1.050.101
Other operating revenue	298.559	(18.374)	280.185
Total operating income	1.419.528	(1.541)	1.417.987
Operating expenses			
Other operating expenses	348.129	(1.392)	346.737
Total operating expenses	1.249.303	(1.392)	1.247.911
Operating profit before depr. and amortisation (EBITDA)	170.225	(149)	170.076
Profit before income tax	48.791	(149)	48.642
Income tax	(11.134)	30	(11.104)
Profit for the year	37.657	(119)	37.538

(iii) **Consolidated Statement of Cash Flows**

The following table shows the change to the line items of the consolidated statement of cash flows during the year 2017 by adopting IFRS 15.

	2017 Original	Adjustment IFRS 15	2017 Restated
Cash flows from operating activities			
Profit for the period	37.657	(119)	37.538
Tax expense	11.134	(30)	11.104
Trade and other receivables, increase	11.792	(1.392)	10.400
Deferred income, increase	23.684	1.541	25.225

(iv) **Impact of adopting IFRS 15 on the Group's Consolidated Statement of Comprehensive Income as at 31 December 2018**

The following table shows the impact by the adoption of IFRS 15 on the consolidated statement of comprehensive income for the year 2018:

	Amounts without adoption of IFRS 15	Adjustment IFRS 15	2018 As reported
Operating income			
Transport revenue	1.092.610	704	1.093.314
Total operating income	1.509.814	704	1.510.518
Operating expenses			
Other operating expenses	368.889	(3.391)	365.498
Total operating expenses	1.437.430	(3.391)	1.434.039
Operating profit before depr. and amortisation (EBITDA)	72.384	4.095	76.479
Loss before income tax	(71.905)	4.095	(67.810)
Income tax	13.059	(819)	12.240
Loss for the year	(58.846)	3.276	(55.570)

6. Operating segments

Segment information is presented in the consolidated financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure and is divided into three segments; International Flight Operations, Aviation Investments and Tourism Investments.

Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

International Flight Operations

The International Flight Operations are based on the Hub and Spoke concept between Europe and North America via Iceland, leveraging Iceland's geographical position. This strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed Icelandair to grow and expand its route network over the past years. In 2018 Icelandair's international route networking connected 23 Cities in North America with 26 Cities in Europe and by that offering connectivity between 670 city pairs within the network. The network is an invaluable asset for the Icelandic Tourism offering direct flights to Iceland from around 50 cities. Icelanders and businesses also utilize the network and make use of the frequent and diverse connections to Europe and North America.

The network is important for the export and import industries in Iceland, wherein Icelandair Cargo utilizes the network and own freighters to offer reliable, frequent and quick transport of cargo.

Aviation Investments

There are three subsidiaries within the Aviation Investment segment. Loftleidir Icelandic, the leasing arm of the group, Air Iceland Connect, the domestic airline and VITA an outgoing tour operator. They have access to the systems, vast experience and knowhow within Icelandair and the International Flight Operations bringing economy of scale to the whole operations.

Tourism Investments

There are two subsidiaries within the Tourism Investments, Icelandair Hotels and Iceland Travel. Icelandair Hotels offers quality hotels both in Reykjavík and around the countryside. Iceland Travel is the largest incoming tour operator in Iceland. Both companies utilize Icelandair's international route network on a whole year basis.

In a strategic review it was concluded to put more focus on aviation and airline operations and less on Tourism. The Company has initiated a process to sell its hotel operations. The process is ongoing and is supposed to be concluded in the first half of the year 2019.

Geographic information

The geographic information analyses the Group´s revenue as the majority of the Group's clients are outside of Iceland. The vast majority of the Group´s non-current assets are located in Iceland. In presenting the following information the Group's revenues have been based on geographic location of customers:

	2018	2017
Revenues		
North America	40%	39%
Iceland	22%	22%
West Continental Europe	14%	14%
Scandinavia	7%	7%
United Kingdom	6%	7%
Other	11%	11%
Total revenues	100%	100%

6. contd.:

Information on reportable segments

2018	**International flight operations**	**Aviation investment**	**Tourism investment**	**Total**
External revenue	1.108.637	196.502	205.379	1.510.518
Inter-segment revenue	95.091	7.509	10.345	112.945
Segment revenue	1.203.728	204.011	215.724	1.623.463
Segment EBITDAR*	55.013	47.017	24.863	126.893
Operating lease expenses	(12.397)	(23.987)	(14.030)	(50.414)
Segment EBITDA	42.616	23.030	10.833	76.479
Finance income	8.267	1.523	2.256	12.046
Finance costs	(20.690)	(2.405)	(1.545)	(24.640)
Depreciation and amortisation	(115.666)	(11.127)	(6.654)	(133.447)
Share of profit of equity accounted investees	1.648	0	104	1.752
Reportable segment (loss) profit before tax	(83.825)	11.021	4.994	(67.810)
Reportable segment assets	1.889.791	119.652	61.584	2.071.027
Investment in associates	25.980	154	1.055	27.189
Capital expenditure	293.151	29.160	13.680	335.991
Reportable segment liabilities	1.239.285	96.079	44.092	1.379.456
2017 restated**				
External revenue	1.052.820	161.790	203.377	1.417.987
Inter-segment revenue	187.924	8.972	15.308	212.204
Segment revenue	1.240.744	170.762	218.685	1.630.191
Segment EBITDAR*	146.898	39.018	21.849	207.765
Operating lease expenses	(9.414)	(16.031)	(12.244)	(37.689)
Segment EBITDA	137.484	22.987	9.605	170.076
Finance income	18.300	309	619	19.228
Finance costs	(12.041)	(7.295)	(1.487)	(20.823)
Depreciation and amortisation	(104.085)	(10.600)	(5.746)	(120.431)
Share of profit of equity accounted investees	287	0	305	592
Reportable segment profit before tax	39.945	5.401	3.296	48.642
Reportable segment assets	1.849.459	115.968	62.417	2.027.844
Investment in associates	28.368	173	1.088	29.629
Capital expenditure	142.660	15.215	8.256	166.131
Reportable segment liabilities	928.105	92.754	46.328	1.067.187

*EBITDAR means EBITDA before operating lease expenses.
**See note 5

6. contd.:

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities, and other material items

	2018	2017 restated**
Revenue		
Total revenue for reportable segments	1.623.463	1.630.191
Elimination of inter-segment revenue	(112.945)	(212.204)
Consolidated revenue	1.510.518	1.417.987
Profit or loss		
Total profit of reportable segments	(67.810)	48.642
Consolidated continuing profit before tax	(67.810)	48.642
Assets		
Total assets for reportable segments	2.071.027	2.027.844
Investments in associates	27.189	29.629
Elimination of inter-segment assets	(634.094)	(633.631)
Consolidated total assets	1.464.122	1.423.842
Liabilities		
Total liabilities for reportable segments	1.379.456	1.067.187
Elimination of inter-segment liabilities	(386.713)	(239.890)
Consolidated total liabilities	992.743	827.297

Other material items	Reportable segment totals	Adjust-ments	Consoli-dated totals
2018			
Segment EBITDAR	126.893		126.893
Segment EBITDA	76.479		76.479
Finance income	12.046	(3.468)	8.578
Finance costs	(24.640)	3.468	(21.172)
Depreciation and amortisation	(133.447)		(133.447)
Share of profit of associates	1.752		1.752
Capital expenditure	335.991		335.991
2017			
Segment EBITDAR	207.765		207.765
Segment EBITDA	170.076		170.076
Finance income	19.228	(5.145)	14.083
Finance costs	(20.823)	5.145	(15.678)
Depreciation and amortisation	(120.431)		(120.431)
Share of profit of associates	592		592
Capital expenditure	166.131		166.131

**See note 5

7. Assets held for sale

Management has committed to a plan to sell its hotel operation following a strategic decision to place greater focus on the Group's key competencies, i.e. the airline industry.

As the hotel operation is deemed being immaterial on the consolidated statement of comprehensive income, it is included and not shown separately as discontinued operations. In the consolidated statement of financial position, assets and liabilities of this segment are stated as held for sale. Comparative amounts have not been re-presented. The impact on the consolidated financial statements as a whole is presented below.

a. Impacts on consolidated financial statements

(i) Comprehensive income for the hotel operation

	2018	2017
Revenue	117.030	105.411
Elimination of inter-segment revenue	(15.328)	(19.782)
External revenue	101.702	85.629
Expenses	(114.051)	(102.324)
Elimination of expenses of inter-segment sales	15.328	19.782
External expenses	(98.723)	(82.542)
Profit from operating activities	2.979	3.087
Income tax	(575)	(558)
Profit from hotel operations, net of tax	2.404	2.529
Basic profit per share in US cent per share	0,05	0,05
Diluted profit per share in US cent per share	0,05	0,05

(ii) Cash flows from (used) in hotel operation

Net cash from operating activities	11.506	9.006
Net cash used in investing activities	(25.367)	(12.912)
Net cash from financing activities	13.651	7.782
Net cash flows for the period	(210)	3.876

(iii) Effect of possible disposal on the financial position of the Group

The assets and liabilities of the hotel operation are presented as held for sale in the consolidated statements of financial position at year end 2018. An aircraft which is not part of hotel operation, was held for sale at year end 2017 and was sold in June 2018. The carrying amounts of the major classes of assets and liabilities were as follows:

	31.12.2018	31.12.2017
Operating assets	102.491	7.500
Intangible assets and goodwill	5.457	0
Investments in associates	1.055	0
Inventories	755	0
Trade and other receivables	11.377	0
Cash and cash equivalents	4.034	0
Deferred tax liabilities	(3.191)	0
Loans and borrowings	(35.644)	0
Trade and other payables	(8.683)	0
Deferred income	(4.726)	0
Net assets and liabilities	72.925	7.500

8. Operating income

Transport revenue is specified as follows:

	2018	2017 Restated
Passengers	947.494	941.611
Passenger ancillary revenues	87.462	52.145
Cargo and mail	58.358	56.345
Total transport revenue	1.093.314	1.050.101

With the implementation of the new IFRS 15 revenue recognition standard, baggage fees, inflight sales, excess leg room and wifi that are sold as a separate component are now included in passenger revenue but were before included in cargo and mail and sale at airports and hotels. Amounts from prior year has been restated accordingly.

Other operating revenue is specified as follows:

Sale at airports and hotels	104.590	87.389
Revenue from tourism	133.543	140.193
Aircraft and cargo handling services	24.014	21.072
Maintenance revenue	2.760	3.985
Gain on sale of operating assets	4.767	0
Other operating revenue	27.417	27.546
Total other operating revenue	297.091	280.185

9. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	350.804	306.154
Contributions to pension funds	51.853	43.813
Other salary-related expenses	43.421	32.003
Other personnel expenses	69.794	63.192
Total salaries and other personnel expenses	515.872	445.162
Average number of full year equivalents	4.606	4.263
Gender ratio for employees (male / female)	46 / 54	46 / 54

Aviation expenses are specified as follows:

Aircraft fuel	298.771	235.358
Aircraft lease	36.532	21.757
Aircraft handling, landing and communication	136.443	122.757
Aircraft maintenance expenses	80.923	76.140
Total aviation expenses	552.669	456.012

Other operating expenses are specified as follows:

Operating cost of real estates and fixtures	37.631	30.215
Communication	27.758	25.861
Advertising	29.353	30.033
Booking fees and commissions	64.365	61.189
Cost of goods sold	17.011	14.046
Customer services	65.770	56.317
Tourism expenses	84.025	91.203
Other operating expenses	39.585	37.873
Total other operating expenses	365.498	346.737

10. Auditor's fee

Auditor's fee are specified as follows:	Group auditors 2018	Group auditors 2017	Other auditors 2018	Other auditors 2017
Audit	555	538	3	0
Other services	66	327	34	0
	621	865	37	0

11. Depreciation and amortisation

The depreciation and amortisation charge in profit or loss is specified as follows:

	2018	2017
Depreciation of operating assets, see note 13	129.792	118.059
Amortisation of intangible assets, see note 17	3.655	2.372
Depreciation and amortisation recognised in profit or loss	133.447	120.431

12. Finance income and finance costs

Finance income and finance costs are specified as follows:

Interest income on cash and cash equivalents	1.620	1.548
Interest income on corporate debt securities - at amortised cost	557	1.056
Interest income on corporate debt securities - at fair value through profit or loss	0	952
Other interest income	714	207
Net currency exchange gain	5.687	10.320
Finance income total	8.578	14.083
Interest expense on loans and borrowings	19.143	14.971
Other interest expenses	2.029	707
Finance costs total	21.172	15.678
Net finance costs	(12.594)	(1.595)

13. Operating assets

Operating assets are specified as follows:

Cost	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Balance at 1 January 2017	644.105	128.843	82.331	855.279
Additions	90.733	32.908	32.653	156.294
Sales and disposals	(68.520)	0	(2.581)	(71.101)
Reclassification	0	479	(479)	0
Effects of movements in exchange rates	549	11.561	5.903	18.013
Balance at 31 December 2017	666.867	173.791	117.827	958.485
Additions	272.407	25.434	26.236	324.077
Sales and disposals	(138.236)	(584)	(6.719)	(145.539)
Reclassification	(977)	0	0	(977)
Assets classified as held for sale	0	(82.949)	(42.474)	(125.423)
Effects of movements in exchange rates	(921)	(19.388)	(6.136)	(26.445)
Balance at 31 December 2018	799.140	96.304	88.734	984.178
Depreciation and impairment losses				
Balance at 1 January 2017	206.830	14.132	31.702	252.664
Depreciation	103.297	4.008	10.754	118.059
Sales and disposals	(66.516)	0	(2.677)	(69.193)
Effects of movements in exchange rates	119	1.486	2.645	4.250
Balance at 31 December 2017	243.730	19.626	42.424	305.780
Depreciation	111.654	5.538	12.600	129.792
Sales and disposals	(89.038)	(539)	(6.695)	(96.272)
Assets classified as held for sale	0	(4.873)	(18.060)	(22.933)
Effects of movements in exchange rates	(191)	(2.572)	(2.846)	(5.609)
Balance at 31 December 2018	266.155	17.180	27.423	310.758
Carrying amounts				
At 1 January 2017	437.275	114.711	50.629	602.615
At 31 December 2017	423.137	154.165	75.403	652.705
At 31 December 2018	532.985	79.124	61.311	673.420
Depreciation ratios	4-20%	2-6%	5-33%	

13. contd.:

Acquisition of operating assets in 2018 amounted to USD 324.1 million. (2017: USD 156.3 million). Included are 2 Boeing 737 Max8 aircraft, 2 Boeing 757 aircraft, 1 Boeing 767 aircraft, overhaul of own engines and aircraft spare parts in the amount of USD 272.4 million (2017: USD 60.8 million)

14. Mortgages and commitments

The Group's operating assets, aircraft and spare parts are mortgaged to secure debt. The remaining balance of the debt amounted to USD 203.1 million at year end 2018 (2017: USD 65.8 million). The Group owns 42 aircraft, of which 40 are unencumbered, including 35 Boeing 757 and 5 Boeing 767.

15. Insurance value of aircraft and flight equipment

The insurance value and carrying amount of the Group's aircraft and related equipment at year-end is specified as follows:

	Insurance value		Carrying amounts	
	2018	**2017**	**2018**	**2017**
Boeing - 36 / 31 aircraft	771.700	585.000	440.285	334.689
Other aircraft	60.075	66.466	43.148	43.660
Flight equipment	67.862	67.025	49.552	44.788
Total aircraft and flight equipment	899.637	718.491	532.985	423.137

16. Insurance value of buildings and other operating assets

The principal buildings owned by the Group are the following:

2018	**Maintenance hangars**	**Hotels / staff apartm.**	**Office buildings**	**Other buildings**	**Under construction**	**Total**
Official assessment value	32.773	10.155	25.314	12.262	177	80.681
Insurance value	65.649	14.030	52.299	23.194	7.018	162.190
Carrying amounts	31.152	6.163	24.197	12.225	5.387	79.124
Square meters	31.814	5.690	19.736	11.808	6.108	75.156
2017						
Official assessment value	41.153	34.668	28.238	15.557	2.747	122.363
Insurance value	77.077	65.537	50.429	24.225	15.359	232.627
Carrying amounts	32.504	73.555	23.531	13.128	11.447	154.165
Square meters	31.814	18.853	19.736	11.509	5.245	87.157

In 2018 hotel buildings both in operation and under construction were transferred to assets held for sale.

Insurance value of assets held for sale amounted to USD 58.5 million at year end. Official valuation of the same assets amounted to USD 30.6 million. The carrying amount at the same time was USD 77.4 million.

Official valuation of the Group's leased land for buildings at 31 December 2018 amounted to USD 16.5 million (2017: USD 18.2 million) and is not included in the consolidated statement of financial position.

Insurance value of the Group's other operating assets and equipment amounted to USD 66.9 million at year end 2018 (2017: USD 121.7 million). The carrying amount at the same time was USD 61.3 million (2017: USD 75.4 million).

17. Intangible assets and goodwill

Intangible assets and goodwill are specified as follows:

Cost	Goodwill	Trademarks and slots	Other intangibles	Total
Balance at 1 January 2017	150.448	35.990	5.017	191.455
Additions	0	0	5.661	5.661
Sales and disposals	0	0	(2.442)	(2.442)
Effects of movements in exchange rates	2.116	23	451	2.590
Balance at 31 December 2017	152.564	36.013	8.687	197.264
Additions	4.563	0	2.749	7.312
Sales and disposals	0	0	(2.017)	(2.017)
Assets classified as held for sale	(4.563)	0	(1.873)	(6.436)
Effects of movements in exchange rates	(731)	0	(558)	(1.289)
Balance at 31 December 2018	151.833	36.013	6.988	194.834
Amortisation and impairment losses				
Balance at 1 January 2017	11.431	2.605	2.715	16.751
Amortisation	0	0	2.372	2.372
Sales and disposals	0	0	(2.442)	(2.442)
Effects of movements in exchange rates	0	0	161	161
Balance at 31 December 2017	11.431	2.605	2.806	16.842
Amortisation	0	0	3.655	3.655
Sales and disposals	0	0	(2.017)	(2.017)
Assets classified as held for sale	0	0	(978)	(978)
Effects of movements in exchange rates	0	0	(236)	(236)
Balance at 31 December 2018	11.431	2.605	3.230	17.266
Carrying amounts				
At 1 January 2017	139.017	33.385	2.302	174.704
At 31 December 2017	141.133	33.408	5.881	180.422
At 31 December 2018	140.402	33.408	3.758	177.568

18. Impairment test

Goodwill and other intangible assets that have indefinite life are tested for impairment at each reporting date. These assets were recognised at fair value on acquistion dates. Goodwill and other intangible assets with indefinite life are specified as follows:

	2018	2017
Goodwill	140.402	141.133
Trademarks and airport slots	33.408	33.408
Total	173.810	174.541

The decrease in the carrying amount of goodwill is do to translation differences of subsidiaries with functional currencies other than USD.

For the purpose of impairment testing, goodwill is allocated to the units which represent the level within the Group at which the goodwill is monitored for internal management purposes. The aggregate carrying amounts of goodwill allocated to each cash generated unit (CGU) are as follows:

	Goodwill		Trademarks and slots	
	2018	2017	2018	2017
International Flight Operations	82.647	83.280	23.893	23.893
Aviation Investments	55.728	55.728	9.515	9.515
Tourism Investments	2.027	2.125	0	0
Total goodwill	140.402	141.133	33.408	33.408

18. contd.:

The recoverable amounts of cash-generating units was based on their value in use and were determined by discounting the future cash flows generated from the continuing use of the CGU. Cash flows were projected based on actual operating results and a 5 year business plan. Cash flows were extrapolated for determining the residual value using a constant nominal growth rate which was consistent with the long-term average growth rate for the industry. Management believes that this forecast period was justified due to the long-term nature of the business.

The values assigned to the key assumptions represent management's assessment of future trends in the airline, transportation and the tourism industry and are based on both external and internal sources (historical data). Value in use was based on the following key assumptions:

2018	**International flight operations**	**Aviation investments**	**Tourism investments**
Long term growth rate	2,5 - 3,0%	2,5%	3,5%
Revenue growth:			
Weighted average 2018/2017	4,8%	32,8%	-14,9%
2019 - 2023 / 2018 - 2022	7,8%	3,4%	0,3%
Budgeted EBITDA growth	49,8%	1,2%	25,5%
WACC	10,0 - 15,1%	12,4%	8,9%
Debt leverage	10,2 - 45,3%	45,3%	25,0%
Interest rate for debt	4,3 - 6,8%	7,7%	2,0%
2017			
Long term growth rate	2,5 - 4,0%	2,5%	4,0%
Revenue growth:			
Weighted average 2017/2016	10,9%	4,2%	26,8%
2018 - 2022 / 2017 - 2021	9,6%	6,7%	4,0%
Budgeted EBITDA growth	17,0%	-4,5%	48,5%
WACC	9,3 - 14,4%	11,6%	10,2%
Debt leverage	10,2 - 49,8%	49,8%	22,4%
Interest rate for debt	3,9 - 6,4%	7,5%	2,2%

The recoverable amounts of the cash-generating units were estimated to be higher than carrying amounts and no impairment was required. The estimated recoverable amount of the International flight operations unit exceeded its carrying amount by approximately USD 80 million (2017: 246 million). Management has identified that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The discount rate would need to change by 0,6 percentage points and the long term EBIDTA by 3,2% for the estimated recoverable amount to be equal to the carrying amount.

19. Investment in associates

The Group has interests in number of associates. The carrying amount and share of profit of the associates is as follows:

		2018		2017	
	Ownership	Investment	Operating result	Investment	Operating result
Lindarvatn ehf.	50%	16.118	(37)	18.158	35
ITF 1 slhf.	29%	8.594	1.611	9.805	217
Other investments		1.422	178	1.666	340
Total investments in associates		26.134	1.752	29.629	592

Lindarvatn ehf. is the owner of a property at Thorvaldsensstræti and other properties located near Austurvollur which are being rebuilt as a hotel. In total the properties are 15.000 square meters but the new hotel is expected to be 11.000 square meters.

ITF 1 slhf. is a fund managed by Landsbref. The Fund´s purpose is to invest in icelandic companies focusing on entertainment and experience for foreign tourists. Main focus is on whole year projects which contribute to better utilization of the infrastructure in the Icelandic Tourism industry.

20. Deferred cost

Deferred cost consists of prepaid lease on housing and engine overhauls and heavy maintenance of leased aircraft which will be expensed over the lease period. Deferred cost is specified as follows:

	2018	2017
Deferred cost	623	68
Current portion, classified as prepayments among receivables	(532)	(68)
Total deferred cost	91	0
Deferred cost will be expensed as follows:		
Expensed in 2018	532	68
Expensed in 2019	91	
Total deferred cost, including current maturities	623	68

21. Non-current receivables and deposits

Non-current receivables consist of notes, deposits for aircraft and engine lease agreements and various other travel related security fees.

Non-current receivables and deposits are specified as follows:		
Loans, effective interest rate 6% / 6%	266	154
Security deposits	6.499	6.339
Prepayments on aircraft purchases (see disclosure 37)	15.729	143.644
	22.494	150.137
Current maturities	(5.129)	(53.107)
Non-current receivables and deposits total	17.365	97.030
Contractual repayments mature as follows:		
Maturities in 2018	-	53.107
Maturities in 2019	5.129	72.588
Maturities in 2020	3.681	18.405
Maturities in 2021	7.988	2.617
Maturities in 2022	217	19
Maturities in 2023	899	465
Subsequent	4.580	2.936
Total non-current receivables and deposits, including current maturities	22.494	150.137

Non-current receivables and deposits denominated in currencies other than the functional currency comprise USD 1.4 million (2017: USD 1.5 million).

22. Income taxes

Amounts recognised in profit or loss

	2018	2017
Current tax expense		
Current year	0	8.894
	0	8.894
Deferred tax expense		
Origination and reversal of temporary differences	(12.240)	2.210
Total tax expense recognised in profit or loss	(12.240)	11.104

Amounts recognised in other comprehensive income

Effective portion of changes in fair value of cash flow hedge	(12.030)	(631)
Total tax recognised in other comprehensive income	(12.030)	(631)

Reconciliation of effective tax rate

		2018		2017 Restated
(Loss) profit before tax		(67.810)		48.642
Income tax according to current tax rate	20,0%	(13.562)	20,0%	9.728
Non-deductible expenses	(0,9%)	637	1,1%	547
Other items	(1,0%)	685	1,7%	829
Effective tax rate	18,1%	(12.240)	22,8%	11.104

Recognised deferred tax liabilities

Deferred tax liabilities are specified as follows:

	2018	2017 Restated
Deferred tax liabilities 1 January	60.885	58.179
Impact of IFRS15 implementation	0	1.282
Deferred tax recognised in profit or loss	(12.240)	2.210
Income tax recognised in other comprehensive income	(12.030)	(631)
Exchange rate difference	(556)	(155)
Deferred tax liabilities transferred to assets held for sale	(3.191)	0
Deferred tax liabilities 31 December	32.868	60.885

Deferred tax liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018	2017	2018	2017 Restated	2018	2017 Restated
Operating assets	0	0	(62.050)	(52.795)	(62.050)	(52.795)
Intangible assets	0	0	(277)	(679)	(277)	(679)
Derivatives	6.665	0	0	(3.468)	6.665	(3.468)
Trade receivables	0	0	(44)	(2.056)	(44)	(2.056)
	6.665	0	(62.371)	(58.998)	(55.706)	(58.998)
Tax loss carry-forwards	23.563	1.020	0	0	23.563	1.020
Other items		0	(725)	(2.907)	(725)	(2.907)
Deferred income tax	30.228	1.020	(63.096)	(61.905)	(32.868)	(60.885)

22. contd.:

Movements in deferred tax balance during the year

2018	1 January	Recognised in profit or loss	Exchange rate difference	Recognised in other comprehensive income and equity	Transferred to asset held for sale	31 December
Operating assets	(52.795)	(13.309)	854	0	3.200	(62.050)
Intangible assets	(679)	214	188	0	0	(277)
Derivatives	(3.468)		3	10.130		6.665
Trade receivables	(3.308)	3.200	12	0	52	(44)
Tax loss carry-forwards	1.020	22.294	(448)	697	0	23.563
Other items	(1.655)	(159)	(53)	1.203	(61)	(725)
	(60.885)	12.240	556	12.030	3.191	(32.868)
2017 *restated						
Operating assets	(51.580)	(1.543)	328	0	0	(52.795)
Intangible assets	(955)	95	181	0	0	(679)
Derivatives	(4.103)	229	(225)	631	0	(3.468)
Trade receivables	(2.150)	(1.149)	(9)	0	0	(3.308)
Tax loss carry-forwards	895	97	28	0	0	1.020
Other items	(1.568)	61	(148)	0	0	(1.655)
	(59.461)	(2.210)	155	631	0	(60.885)

23. Inventories

Inventories are specified as follows:

	2018	2017
Spare parts	19.546	18.767
Other inventories	6.405	8.034
Inventories total	25.951	26.801

24. Trade and other receivables

Trade and other receivables are specified as follows:

	2018	2017 Restated
Trade receivables	69.243	100.972
Prepayments	30.036	15.140
Restricted cash	2.307	2.132
Current maturities of long term-receivables	5.129	53.107
Other receivables	11.583	14.676
Trade and other receivables total	118.298	186.027

At year end trade receivables are presented net of an allowance for doubtful debts of USD 4.8 million (2017: USD 4.8 million).

Prepayment and prepaid expenses which relate to subsequent periods amounted to USD 30.0 million (2017: USD 15.1 million) at year end. The prepayments consist mainly of prepaid contractual obligations, insurance premiums, software licenses and leases.

Restricted cash is held in bank accounts pledged against credit cards, derivatives and tourism guarantees.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 33.

25. Short term investments

Other investments at year end 2017 consist of short term securities listed on stock exchanges in Iceland and fixed deposits. They are recognised at fair value at year end, based on market value. There are no other investments at year end 2018.

26. Cash and cash equivalents

	2018	2017
Cash and cash equivalents are specified as follows:		
Bank deposits	299.177	220.312
Cash on hand	283	879
Cash and cash equivalents total	299.460	221.191

27. Equity

Share capital

The Company's share capital amounts to ISK 5.0 billion according to its Articles of Association. Shareholders are entitled to receive dividend as declared from time to time and are entitled to one vote per share of one ISK.

The Company held treasury shares in the amount of ISK 187.3 million at year end 2018 (2017: ISK 139.5 million). During the year the Company purchased 47.9 million shares for USD 7.5 million according to a share purchase program authorised at the Company's Annual General Meeting.

Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to the Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve. The balance of the share premium account can be used to offset losses not covered by other reserves or to offset stock splits.

Reserves

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The translation reserve comprises all currency differences arising from the translation of the financial statements of subsidiaries having functional currencies other than the Group as well as from the translation of liabilities that hedge net investment.

According to the Icelandic Financial Statement Act, companies must retain in a separate equity account recognised share in profit of subsidiaries and associates in excess of dividend received or declared.

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Reserve for profit share of affiliates	Total reserves
Balance 1 January 2017	16.423	34.524	63.902	114.849
Share in profit of subsidiaries and associates in excess of dividend received			7.351	7.351
Currency translation differences		7.716		7.716
Effective portion of changes in fair value of cash flow hedges, net of tax	(2.509)			(2.509)
Balance at 31 December 2017	13.914	42.240	71.253	127.407
Share in profit (loss) of subsidiaries and associates in excess of dividend received			(46.355)	(46.355)
Currency translation differences		(6.678)		(6.678)
Net loss on hedge of investment, net of tax	(7.773)			(7.773)
Effective portion of changes in fair value of cash flow hedges, net of tax	(40.339)			(40.339)
Balance at 31 December 2018	(34.198)	35.562	24.898	26.262

Dividend

Dividend amounting to USD 7.3 million was paid to shareholders in the year 2018 (2017: USD 5.0 million).

The Board of Directors proposes no dividend payment to shareholders in 2019 for the year 2018.

28. Earnings per share

Basic earnings per share is calculated by dividing net profit attributable to equity holders of the Parent by the weighted average number of outstanding shares during the year. The calculation of diluted earnings per share is identical to basic earnings per share as no convertible notes or stock options have been issued.

	2018	2017
Basic (loss) earnings per share:		
(Loss) profit for the year attributable to equity holders of the parent company	(55.815)	37.438
Weighted average number of shares for the year	4.812.661	4.974.540
Basic (loss) earnings per share in US cent per share	(1,16)	0,75
Diluted (loss) earnings per share in US cent per share	(1,16)	0,75

29. Loans and borrowings

This note provides information on contractual terms of the Group´s interest-bearing loans and borrowings, which are measured at amortised cost, and changes during the year. For more information on the Group´s exposure to interest rate, foreign currency and liquidity risk, see note 33.

	Current interest bearing debt	Non-current interest bearing debt	Total
Total interest bearing debt 1 January 2017	35.385	206.997	242.382
Proceeds from loans and borrowings	3.448	42.436	45.884
Transaction cost of long-term loans and borrowings	0	(500)	(500)
Repayment of borrowings	0	(10.556)	(10.556)
Cash flows related to financing activities	3.448	31.380	34.828
Proceeds from loans and borrowings	0	7.081	7.081
Refinancing	(38.710)	38.710	0
Financing activities without cash flows	(38.710)	45.791	7.081
Indexation	0	159	159
Currency exchange difference	3.325	1.398	4.723
Expensed borrowing cost recognised in effective interests	0	368	368
Other liability related changes	3.325	1.925	5.250
Total interest bearing debt 1 January 2018	3.448	286.093	289.541
Proceeds from loans and borrowings	0	144.440	144.440
Transaction cost of long-term loans and borrowings	0	(1.016)	(1.016)
Repayment of borrowings	0	(18.783)	(18.783)
Cash flows related to financing activities	0	124.641	124.641
Proceeds from loans and borrowings	39.423	6.424	45.847
Loans on assets held for sale		(35.651)	(35.651)
Financing activities without cash flows	39.423	(29.227)	10.196
Indexation	0	225	225
Currency exchange difference	11	(9.304)	(9.293)
Expensed borrowing cost recognised in effective interests	0	491	491
Other liability related changes	11	(8.588)	(8.577)
Total interest bearing debt 31 December 2018	42.882	372.919	415.801

29. contd.:

Loans and borrowings are specified as follows:	2018	2017
Non-current loans and borrowings:		
Secured bank loans	160.211	62.338
Unsecured bonds	212.708	223.755
Total loans and borrowings	372.919	286.093
Current maturities	(225.406)	(5.839)
Total non-current loans and borrowings	147.513	280.254
Current loans and borrowings:		
Current maturities of non-current liabilities	12.698	5.839
Unsecured bonds	212.708	0
Bank overdrafts and bank loans	42.882	3.448
Total current loans and borrowings	268.288	9.287
Total loans and borrowings	415.801	289.541

Terms and debt repayment schedule:	Currency	Nominal interest rates year end 2018	Year of maturity	Total remaining balance 2018	2017
Secured bank loans	USD	2,8%	2022-2028	49.035	12.202
Secured bank loans	EUR	0,1%	2026-2028	72.983	7.285
Secured bank loans	ISK	6,3%	2023-2036	38.193	41.146
Secured bank loans, indexed	ISK			0	1.706
Unsecured bond issue	USD	5,7%	2019	212.708	212.360
Unsecured bond issue, indexed	ISK			0	11.394
Secured bank loans - short term	USD	6,2%	2019	30.022	3.448
Secured bank loans - short term	ISK	7,5%	2019	12.860	0
Total interest bearing liabilities				415.801	289.541

Repayments of loans and borrowings are specified as follows:		
Repayments in 2018	-	9.287
Repayments in 2019	268.287	41.723
Repayments in 2020	12.809	27.015
Repayments in 2021	12.919	193.534
Repayments in 2022	16.674	7.573
Repayments in 2023	26.494	3.914
Subsequent repayments	78.618	6.495
Total loans and borrowings	415.801	289.541

The company has issued two listed bond categories: ISIN N000107769982, amounting to USD 190 million and ISIN IS0000025427 amounting to USD 23.6 million. In late December the bondholders voted in favor of certain amendments to the terms and conditions of the bonds which were identical for both bond categories. The amendments included that the company would redeem one third (1/3) of the bonds, which was done on January 15th 2019 and amounted to USD 73 million including accrued interests. The company may redeem all or only some of the outstanding on or before June 30th and each bondholder has the right to request that all, or only some, of the bonds shall be repurchased between 30 June 2019 to (and including) 15 July 2019. Due to this situation, the bonds are categorized as short-term financing in the company's balance sheet. The company's cash and cash equivalents amounted to USD 300 million in year-end 2018 and all of the company's Q400, Boeing 757 and 767 aircraft were unencumbered at year-end. Thus, the company can refinance the bond categories which is currently under review.

29. contd.:

On December 27th 2018 Icelandair Group entered into a new financing facility with BOC Aviation regarding the financing of pre-delivery payments of the Boeing 737 MAX Aircraft on order from The Boeing Company which will be delivered in 2019 and 2020. The final scheduled delivery date of the aircraft is in March 2020. The total amount of the financing facility is approximately USD 200 million but the Company's liquidity increased by USD 160 million due to the agreement since Icelandair Group had already made the pre-delivery payments with its own funds.

In addition to the PDP facility the parties agreed to a Sale and Leaseback of two Boeing 737 MAX aircraft, one of them to be delivered in 2019 and the second one in 2020. The lease period is 12 years but includes a purchase option 30 months into the lease period.

30. Non-current payables

Non-current payables correspond to accrued engine overhaul cost of leased aircraft and security deposits from lease contracts to be realized after 2019. Non-current obligations are specified as follows:

	2018	2017
Non-current payables	27.406	24.289
Current portion, classified in trade and other payables	(12.852)	(7.050)
Total non-current payables	14.554	17.239

Non-current payables are scheduled to be repaid as follows:

Repayments in 2018	-	7.050
Repayments in 2019	12.852	2.728
Repayments in 2020	925	10.015
Repayments in 2021	3.712	4.353
Repayments in 2022	896	143
Repayments in 2023	4.264	0
Subsequent	4.757	0
Total non-current payables, including current maturities	27.406	24.289

31. Trade and other payables

Trade and other payables are specified as follows:

Trade payables	55.909	58.391
Current portion of engine overhauls and security deposits from lease contracts	12.852	7.050
Income tax payable	0	8.894
Other payables	154.005	157.853
Total trade and other payables	222.766	232.188

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 33.

32. Deferred income

Sold unused tickets, fair value of unutilized frequent flyer points and other prepayments are presented as deferred income in the consolidated statement of financial position.

Deferred income is specified as follows:	2018	2017 Restated
Sold unused tickets	171.537	188.754
Frequent flyer points	19.165	19.124
Other prepayments	24.148	18.183
Total deferred income	214.850	226.061

The amount allocated to frequent flyer points is estimated by reference to the fair value of the discounted services for which they could be redeemed, since the fair value of the points themselves is not directly observable. The fair value of the discounted services for which the points, granted through a customer loyalty programme, can be redeemed takes into account the expected redemption rate and the timing of such expected redemptions. That amount is recognised as deferred income.

33. Financial risk management

Overview

The Group has exposure to the following financial risks:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the risks above, the Group's objectives, policies, and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Company's Risk Management Committee is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

33. contd.:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Exposure to credit risk

The carrying amounts of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

		Carrying amount	
	Note	**2018**	**2017**
Non-current receivables and deposits	21	17.365	97.030
Trade and other receivables	24	88.262	170.887
Short term investments	25	0	4.087
Cash and cash equivalents	26	299.460	221.191
		405.087	493.195

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Credit risk is linked to trade receivables, investment in debt securities and agreements with financial institutions related to hedging. The relative spread of trade receivables across counterparties is also crucial for credit risk exposure. The risk involved is directly related to the fulfilment of outstanding obligations of the Group's counterparties. The Group is aware of potential losses related to credit risk exposure and chooses its counterparties subject to business experience.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

At year end 2018, the maximum exposure to credit risk for trade and other receivables by type of financial instrument was as follows:

	2018	**2017 Restated**
Credit cards	40.744	55.219
Trade receivables	28.499	45.753
	69.243	100.972
Prepayments on aircraft purchases	4.249	52.521
Other receivables	44.806	32.534
	118.298	186.027

Impairment losses

The aging of trade receivables at the reporting date was as follows:

	Gross 2018	**Allowance for Impairment 2018**	**Gross 2017**	**Allowance for Impairment 2017**
Not past due	54.276	(157)	83.848	(1.065)
Past due 1-30 days	7.876	(290)	10.035	(93)
Past due 31-120 days	5.537	(1.981)	7.073	(1.084)
Past due 121-365 days	3.309	(507)	2.284	(696)
More than one year	3.017	(1.837)	2.565	(1.895)
Total	74.015	(4.772)	105.805	(4.833)

33. contd.:

Changes in the allowance for impairment in respect of trade receivables during the year were as follows:

	2018	2017
Balance at 1 January	4.833	5.151
Impairment loss allowance, increase	869	2.074
Amounts written off	(613)	(2.424)
Exchange rate difference	(15)	32
Impairment on assets held for sale transferred to assets held for sale	(302)	0
Balance at 31 December	4.772	4.833

Based on historical default rates, the management believes that minimal impairment allowance is necessary in respect of trade receivables not past due or past due by 30 days; a significant part of the balance relates to customers that have a good track record with the Group.

The allowance account in respect of trade receivables is used to record impairment losses. If the Group believes that no recovery is possible the financial asset is written off directly.

Guarantees
The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries.

Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Exposure to liquidity risk
The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount of three months operating cost on average where 30% can be in the form of unused lines of credit.

The Company's management monitors its cash flow requirements by using rolling forecast and the liquidity management is based on projected cash flow in different currencies.

Following are the contractual maturities of financial liabilities at the reporting date, including estimated interest payments:

31 December 2018	Carrying amount	Contractual cash flows	Within 12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Unsecured bank loans	212.708	237.997	237.997	0	0	0
Secured loans	203.093	231.723	60.826	17.656	66.536	86.705
Payables & prepayments	237.320	237.320	222.766	925	8.872	4.757
	653.121	707.040	521.589	18.581	75.408	91.462
Derivative financial liabilities						
Commodity derivatives	33.491	34.139	31.784	2.355	0	0
Forward exchange contracts	3.946	2.518	2.518	0	0	0
- Outflow	(87.765)	(89.363)	(89.363)	0	0	0
- Inflow	91.712	91.882	91.882	0	0	0
Interest rate swaps	(832)	(858)	(648)	(24)	(177)	(9)
	36.605	35.799	33.654	2.331	(177)	(9)

33. contd.:

31 December 2017	Carrying amount	Contractual cash flows	Within 12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Unsecured bond issue	223.755	259.684	14.898	35.124	209.662	0
Secured loans	65.786	71.120	11.054	41.035	10.823	8.208
Payables & prepayments	249.427	249.427	232.188	2.728	14.511	0
	538.968	580.231	258.140	78.887	234.996	8.208
Derivative financial liabilities						
Commodity derivatives	17.969	18.163	17.767	396	0	0
Forward exchange contracts	(629)	1.964	1.964	0	0	0
- Outflow	(134.564)	(134.775)	(134.775)	0	0	0
- Inflow	133.935	136.739	136.739	0	0	0
Interest rate swaps	365	390	49	(3)	344	0
	17.705	20.517	19.780	393	344	0

Unused unsecured credit lines at year end 2018 amounted to USD 0 million (2017: USD 74.8 million).

As stated in note 29 the Company has categorised its listed bonds as short term financing in the balance sheet. The company can refinance the bond categories which is currently under review.

In addition to the liquidity exposure presented in the balance sheet, the Group is exposed to off balance sheet liabilities. Further information on these liabilities is provided in note 35 and 37.

Market risk

Market risk emerges from changes in market prices, such as foreign exchange rates, interest rates, carbon prices and fuel prices, as those changes will affect the Group's cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group uses spot and forward trading, swaps and options in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. The Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Carbon risk

The Group is exposed to carbon price risk. In terms of volume, carbon emission is a fixed proportion of the fuel consumtion but the price volatility of carbon has been greater although the consequential cash flow has been trivial compared to that of fuel costs. Last year the price of carbon units tripled. In 2018 the estimated volumes which need to be submitted in according to the Group´s compliance is 530.000 units of which 186.000 are covered by free allocation from the ETS. The volume for 2019 compliance is expected the same, leaving the exposure dependent on price developments. The end of year price was 24,64 EUR/t.

Fuel risk

The Group is exposed to fuel price risk. The Group´s fuel price risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in the event of a substantial fall in the price of fuel. The current Group strategy as reflected in the policy is to hedge between 40% and 60% of fuel consumption 12 months forward and up to 20% from 13-18 months forward. In implementing the strategy, the hedge programme allows for a number of derivatives with approved counterparties and within approved limits. At year end the 55% of an estimated 12 months exposure of 437.000 tonnes was hedged with swaps.

33. contd.:

Sensitivity analysis

The following table demonstrates the sensitivity of the financial instruments in place at year end to a reasonably possible change in fuel prices, with all other variables held constant, on profit before tax and equity:

	Effect on equity		Effect on profit before tax	
	2018	**2017**	**2018**	**2017**
Increase in fuel prices by 10%	14.724	16.122	0	0
Decrease in fuel prices by 10%	(14.724)	(16.122)	0	0

Currency risk

The Group is exposed to currency risk on sales, purchases, trade and other receivables, short term investments, cash and cash equivalents, secured bank loans and trade payables that are denominated in a currencies other than the respective functional currencies of Group entities.

The Group seeks to reduce its foreign exchange exposure arising from currency mismatch in the cash flow by netting receipts and payments in each individual currency and by internal trading within the Group. The shortfall of ISK is financed by a surplus of European currencies, most importantly EUR and Scandinavian currencies but also GBP and CAD. The exposure is hedged 50-80% 9-12 months forward with spot and forward contracts.

Exposure to currency risk

The Group's exposure to currency risk in it's major currencies is as follows:

2018	**ISK**	**EUR**	**GBP**	**DKK**	**SEK**	**CAD**
Receivables / payables, net	69.378	(2.687)	(5.150)	(778)	(178)	79
Cash and cash equivalents	10.263	15.604	5.376	1.768	6.118	3.340
Secured bank loans	(35.987)	(61.554)	0	0	0	0
Forward exchange contracts	89.256	(32.052)	(8.926)	(6.899)	(12.867)	(23.500)
Net statement of financial position exposure	132.910	(80.689)	(8.700)	(5.909)	(6.927)	(20.081)
Next 12 months forecast sales	274.856	243.087	40.939	25.670	26.894	79.162
Next 12 months forecast purchases	(618.089)	(161.891)	(27.405)	(10.430)	(3.472)	(15.739)
Capex thereof	(25.066)	(628)	(1.146)			
Net 12 months currency exposure	(210.323)	507	4.834	9.331	16.495	43.342

2017	**ISK**	**EUR**	**GBP**	**DKK**	**SEK**	**CAD**
Receivables / payables, net	49.103	(4.951)	(4.378)	(786)	183	1.869
Cash and cash equivalents	56.317	35.310	10.201	1.369	4.492	12.054
Secured bank loans	(11.394)	0	0	0	0	0
Forward exchange contracts	122.075	(16.866)	(27.085)	(16.116)	(23.198)	(38.245)
Net statement of financial position exposure	216.101	13.493	(21.262)	(15.533)	(18.523)	(24.322)
Next 12 months forecast sales	307.536	283.863	75.181	24.652	25.606	65.778
Next 12 months forecast purchases	(632.561)	(214.534)	(25.905)	(9.381)	(3.028)	(13.509)
Capex thereof	(46.234)					
Net 12 months currency exposure	(108.924)	82.822	28.014	(262)	4.055	27.947

33. contd.:

The following significant exchange rates of USD applied during the year:

	Average rate		Year-end spot rate	
	2018	**2017**	**2018**	**2017**
ISK	0,0092	0,0093	0,0086	0,0096
EUR	1,18	1,13	1,14	1,20
GBP	1,33	1,29	1,28	1,35
CAD	0,77	0,77	0,73	0,80
DKK	0,16	0,15	0,15	0,16
SEK	0,12	0,12	0,11	0,12

Sensitivity analysis

A 10% strengthening of the USD against the following currencies at 31 December would have increased (decreased) post-tax equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

2018	**Directly in equity**	**Profit or loss**	**Total effect on equity**
ISK	(7.140)	(3.492)	(10.633)
EUR	2.564	3.891	6.455
GBP	714	(18)	696
DKK	552	(79)	473
SEK	1.029	(475)	554
CAD	1.880	(274)	1.606
2017			
ISK	(9.766)	(7.522)	(17.288)
EUR	1.349	(2.429)	(1.079)
GBP	2.167	(466)	1.701
DKK	1.289	(47)	1.243
SEK	1.856	(374)	1.482
CAD	3.060	(1.114)	1.946

A 10% weakening of the USD against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The fair value of a fixed rate instrument will fluctuate because of changes in market interest rates. The cash flow of variable rate instruments will also fluctuate with changes in market interest rates. The Group follows a policy of hedging 40-80% of the net interest rate cash flow exposure of long-term financing with up to a 5-year horizon. This is achieved by using fixed rate loans and fixed for floating swap contracts.

At the reporting date the interest rate profile of the Group´s interest bearing financial instruments was as follows:

	Carrying amount	
Fixed rate instruments	**2018**	**2017**
Financial assets	0	4.087
Commodity derivatives and forward exchange contracts	(36.605)	17.705
Interest rate swaps	(99.796)	(50.000)
	(136.401)	(28.208)
Variable rate instruments		
Financial assets	299.177	220.312
Financial liabilities	(318.523)	(211.709)
	(19.346)	8.603

33. contd.:

Fair value sensitivity analysis for fixed rate instruments

The Group designates derivatives for the purpose of fuel, currency and interest rate hedging as hedging instruments under a fair value hedge accounting model. As such, market rates affect the Mark to Market of the derivatives and the market value of fixed rate financial assets. In addition, interest rate changes affect the fixed rate instruments carrying amount through equity.

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts stated below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

31 December 2018	**100 bp increase**	**100 bp decrease**
Commodity derivatives and forward exchange contracts	145	(148)
Interest rate swaps	3.115	(3.275)
Fair value sensitivity (net)	3.261	(3.423)
31 December 2017		
Fixed rate instruments	(80)	83
Commodity derivatives and forward exchange contracts	(70)	71
Interest rate swaps	(1.541)	1.499
Fair value sensitivity (net)	(1.692)	1.653

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts stated below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

31 December 2018	**100 bp increase**	**100 bp decrease**
Variable rate instruments	155	(155)
Cash flow sensitivity (net)	155	(155)
31 December 2017		
Variable rate instruments	69	(69)
Cash flow sensitivity (net)	69	(69)

Capital management

The Board's policy is to maintain a strong capital base for the benefit of investor, creditor and market confidence and to sustain future development of the business. The policy is to hold in cash and other highly liquid assets the equivalent of three months operating cost of which 30% of the benchmark can be in the form of unused lines of credit. Furthermore according to the policy the equity ratio shall not be less than 35%.

Dividend

The Board of Directors has approved to the following dividend policy: "The Company's goal is to declare 20-40% of annual net profit as dividend. Final decision on dividend payments will be based on the financial position of the Company, operating capital requirements and market conditions."

34. Financial instruments and fair values

The table shows the carrying amounts and fair values of financial assets and liabilities. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount 2018	Fair value 2018	Carrying amount 2017	Fair value 2017
Derivatives used for hedging	(38.994)	(38.994)	17.067	17.067
Short term investments	0	0	4.087	4.087
Unsecured bond issue	212.708	(221.058)	223.755	(246.238)
Secured loans	203.093	(198.171)	65.786	(68.504)
Total	376.807	(458.223)	310.695	(293.588)

Fair value hierarchy:

The table below analyses the fair value of assets and liabilities and their levels in the fair value hierarchy:

31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Derivatives used for hedging		666		666
	0	666	0	666
Financial liabilities				
Unsecured bond issue			(221.058)	(221.058)
Secured loans			(198.171)	(198.171)
Derivatives used for hedging		(39.660)		(39.660)
	0	(39.660)	(419.229)	(458.889)
31 December 2017				
Financial assets				
Derivatives used for hedging		18.450		18.450
Short term investments	4.087			4.087
	4.087	18.450	0	22.537
Financial liabilities				
Unsecured bond issue			(246.238)	(246.238)
Secured loans			(68.504)	(68.504)
Derivatives used for hedging		(1.383)		(1.383)
	0	(1.383)	(314.742)	(316.125)

The basis for determining the levels is disclosed in note 4.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate based on government bonds.

The fair value of interest rate swaps is based on broker quotes. If not available the fair value is based on the discounted cash flow difference of the contractual fixed interest payment and the floating interest receivable.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entities and counterparties when appropriate.

35. Off-balance sheet items

Leases as lessee

As a lessee the Group has in place operating leases for storage facilities, hotels, equipment, the longest until the year 2041. The Group has also in place operating leases for aircraft, the longest until the year 2027. The aircraft lease payments consist of regular lease payments excluding maintenance reserves. During the year USD 50.4 million was recognised as an expense in profit or loss in respect of operating leases (2017: USD 37.7 million). At year end 2018 the leases are payable as follows in nominal amounts for each year:

2018	Real estate	Aircraft	Other	Total
In the year 2019	20.471	37.027	8.270	65.768
In the year 2020	24.364	40.740	3.463	68.567
In the year 2021	26.327	37.640	2.985	66.952
In the year 2022	26.470	37.640	2.497	66.607
In the year 2023	26.552	36.389	2.436	65.377
Subsequent	315.167	129.693	30.662	475.522
Total	439.351	319.129	50.313	808.793
2017				
In the year 2018	18.363	19.745	10.371	48.479
In the year 2019	23.075	24.885	3.766	51.726
In the year 2020	22.886	25.568	3.951	52.405
In the year 2021	22.192	20.412	2.897	45.501
In the year 2022	21.833	18.882	3.046	43.761
Subsequent	249.072	80.851	40.419	370.342
Total	357.421	190.343	64.450	612.214

36. Leases as lessor

As a lessor the Group leases aircraft on wet, dry and various other terms, both on short and long term leases. Lease income for the year amounted to USD 120.1 million (2017; USD 87.7 million). Contracted leases at year end were as follows:

	2018	2017
In the year 2018	-	76.750
In the year 2019	65.722	33.463
In the year 2020	53.975	29.119
In the year 2021	39.074	10.911
In the year 2022	25.876	502
In the year 2023	11.676	0
Subsequent	11.028	0
Total	207.351	150.745

37. Capital commitments

In 2013 Icelandair Group and Boeing signed an agreement for the purchase of sixteen 737 MAX8 and 737 MAX9 aircraft with an option to purchase additional eight aircraft. The delivery of the first three aircraft was in first half of 2018. The commitment for all sixteen aircraft was valued at USD 1.6 billion at Boeing list prices when the agreement was finalized. The Group received acceptable discounts that, due to confidentiality agreements, cannot be disclosed. Prepayments according to the agreement will be made over the construction period.

Two of the three aircraft delivered in 2018, were financed with a JOLCO financing structure (Japanese Operating Lease with a Call Option) and one was financed with a sale and leaseback. All six of the aircraft delivered in 2019 are financed through sale and leaseback agreements. A commitment has been made to finance one MAX aircraft in 2020 with a sale and leaseback. The lease obligation from the contract is included in note 35.

The delivery plan of the aircraft is as follows:

	2019	2020	2021
Boeing 737 MAX8	3	2	1
Boeing 737 MAX9	3	3	1
Total	6	5	2

38. Related parties

Identity of related parties

The Group has a related party relationship with its shareholders with significant influence, subsidiaries, associates, and with its directors and executive officers.

Transactions with management and key personnel

Salaries and benefits of management for their service to Group companies and the number of shares in the Company held by management are specified below. Salaries and benefits include contributions to pension funds, are presented in ISK, rounded to nearest thousand.

Board of Directors:	2018 Salaries and benefits ISK	Number of shares held at year-end 2018 in thousands	2017 Salaries and benefits ISK	Number of shares held at year-end 2017 in thousands
Úlfar Steindórsson, Chairman of the Board	10.591	12.240	9.224	
Ásthildur Margrét Otharsdóttir	7.556		5.375	
Guðmundur Hafsteinsson	4.863			
Heiðrún Emilía Jónsdóttir	4.944	400		
Ómar Benediktsson	8.182		6.198	102.361
Georg Lúðvíksson, former Board member	926		4.074	
Katrín Olga Jóhannesdóttir, former Board member	1.815	13	7.183	13
Sigurður Helgason, former Chairman of the Board			1.528	14.000
Magnús Magnússon, former Board member			669	
Key employees:				
Bogi Nils Bogason CEO of Icelandair Group hf.	59.383	1.750	53.900	1.750
Björgólfur Jóhannsson, former CEO of Icelandair Group hf.	68.799	300	67.066	1.900
Six/eight executives of Group companies	204.046	261	286.955	111

Shares held by management and directors includes shares held by companies controlled by them.

Gender ratio for key employees (male / female)	57 / 43	90 / 10

Transaction with associates

The Group purchased and sold services to associates for immaterial amounts in 2018 and 2017. At year end the Company had a receivable on it's associate Lindarvatn amounting to USD 1.6 million.

Transaction with shareholders

There are no shareholders with significant influence at year end 2018. Companies which members of the Board and key employees control have been identified as being twenty five. These companies have been identified as related. Transactions with them consist of purchase and sale of services in the ordinary course of business on an arm's length basis which were immaterial in amounts both in 2018 and 2017.

39. Litigations and claims

The Icelandic Competition Authority (ICA) is investigating Icelandair's alleged predatory pricing in 2012-13 which could be considered as a breach of Article 11 of the Icelandic Competition Act. If the investigation will conclude that Icelandair had a dominant position in the market, and abused its position by predatory pricing, the ICA could lay an administrative fine on Icelandair for the alleged breach of the Competition Act. The ICA's decision may be appealed to the Icelandic Competition Appeals Committee. The Company's management is of the opinion that Icelandair's pricing in 2012-13 was fully compliant with the Competition Act.

40. Group entities

The Company held ten subsidiaries at year end 2018 which are all included in the consolidated financial statements. During the year Icelandair ehf. merged with IGS ehf. and ownership of Icelandair Cargo ehf. was transferred to Icelandair ehf. The remaining subsidiaries at year end are as follows:

	Ownership interest	
	2018	**2017**
International Flight Operations:		
A320 ehf.	100%	100%
Fjárvakur - Icelandair Shared Services ehf.	100%	100%
IceCap Ltd., Guernsey	100%	100%
Iceeignir ehf.	100%	100%
Icelandair ehf.	100%	100%
Icelandair Cargo ehf.	-	100%
IGS ehf.	-	100%
Aviation investments:		
Air Iceland ehf.	100%	100%
Feria ehf.	100%	100%
Loftleiðir - Icelandic ehf.	100%	100%
Tourism investments:		
Iceland Travel ehf.	100%	100%
Icelandair Hotels ehf.	100%	100%

The subsidiaries further own thirteen subsidiaries that are also included in the consolidated financial statements. Three of those have non-controlling shareholders.

41. Other matters

Loftleidir Icelandic, a subsidiary of Icelandair Group, has, together with Icelandic investors, submitted a binding offer for a 51% of the shares in Cabo Verde Airlines on Cape Verde. Authorities in Cape Verde and Loftleidir Icelandic have been cooperating for some time. In August 2017, Loftleidir Icelandic signed a management agreement with the Cape Verde Government on restructuring Cabo Verde Airlines. The agreement also aimed to strengthen the international airport in Cape Verde, to develop the islands as a promising tourist destination and to build an international hub for connecting flights. Coinciding with the agreement, it was announced that the company was due to be privatised. Cabo Verde Airlines already has operating licenses to fly scheduled flights to Europe and the United States.

The purchase price is confidential but the acquisition would partly be paid for by the service already performed by Loftleidir Icelandic on the basis of the management contract. If the acquisition goes through, Loftleidir Iceland will hold 35% in Cabo Verde Airlines through a new company, Loftleidir Cabo Verde ehf. The acquisition does not have significant effect on Icelandair Group's financial statements, the shares will classified as an investment in an associated company.

42. Ratios

The Group's primary ratios at year end are specified as follows:

	2018	2017 *Restated
Current ratio	0,71	0,99
Equity ratio	0,32	0,42
Intrinsic value of share capital	12,07	15,09

43. Significant accounting policies

The accounting policies set out in this note have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

a. Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated statements from the date on which control commences until the date on which control ceases. When the Group looses control over subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other compnonents of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(ii) Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of associates, until the date on which significant influence ceases.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Currency exchange

(i) Currency transactions

Transactions in currencies other than functional currencies (foreign currencies) are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective or qualifying cash flow hedges to the extent the hedge is effective, which are recognised in other comprehensive income.

43. contd.:

(ii) **Subsidiaries with other functional currencies**

Assets and liabilities of foreign operations and subsidiaries with functional currencies other than USD, including goodwill and fair value adjustments arising on acquisitions, are translated to USD at exchange rates at the reporting date. Income and expenses are translated to USD at exchange rates at the dates of the transactions. Currency differences arising on translation are recognised in other comprehensive income. When an operation is disposed of, in part or in full, the relevant amount in the currency translation reserve within equity is transferred to profit or loss as part of the profit or loss on disposal.

Currency differences are recognised in other comprehensive income, and presented in the translation reserve in equity. However, if the operation is not a wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to the non-controlling interests.

c. Operating income

(i) **Transport revenue**

Passenger ticket sales are recognised as revenue when transportation has been provided. Sold refundable documents not used within twelve months from the month of sale are recognised as revenue. Non-refundable documents are recognized as revenue two months after expected transport if not used. Revenue from mail and cargo transportation is recognised when transportation has been provided.

(ii) **Customer loyalty programmes**

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits (frequent flyer points) and other components of the sale. Awards can also be generated through transportation services supplied by the Group. Through transportation services the amount allocated to the points is estimated by reference to the fair value of the services for which they could be redeemed, since the fair value of the points themselves is not directly observable. The fair value of the services is calculated taking into account the expected redemption rate and timing of the redemptions. The amounts are deferred and revenue is recognised only when the points are redeemed and the Group has fulfilled its obligations to provide the services. The amount of revenue recognised in those circumstances is based on the number of points that have been redeemed in exchange for services, relative to the total number of points that is expected to be redeemed.

(iii) **Aircraft and aircrew lease**

Revenue from aircraft and aircrew lease is recognised in profit or loss when the service has been provided.

(iv) **Other operating revenue**

Revenue includes revenue from tourism, sales at airports and hotels, maintenance service sold and other revenue. Revenue is recognised in profit or loss when the service has been provided or sale completed by delivery of products.

Gain on sale of operating assets is recognised in profit or loss when the risks and rewards of ownership are transferred to the buyer.

d. Employee benefits

(i) **Short-term employee benefits**

Short-term employee benefits are expensed when the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) **Defined contribution plans**

Obligations for contributions to defined contribution plans are epensed when the related service is provided.

43. contd.:

e. Lease payments

Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

f. Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group´s right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of discounts on provisions, foreign currency losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether currency movements are in a net gain or net loss position.

g. Income tax

Income tax comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is expected tax payable on taxable income for the year using tax rates enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that do not affect accounting, or taxable profit or differences relating to investment in subsidiaries.

h. Inventories

Goods for resale and supplies are measured at the lower of cost and net realisable value. The cost of inventories is based on first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

i. Operating assets

(i) Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of operating assets have different useful lives, they are accounted for as separate items (major components) of operating assets.

Any gain and loss on disposal of an item of operating assets (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

43. contd.:

(ii) **Aircraft and flight equipment**

Aircraft and flight equipment, e.g. aircraft engines and aircraft spare parts, are measured at cost less accumulated depreciation and accumulated impairment losses. When an aircraft is acquired the purchase price is divided between the aircraft itself and engines. Aircraft is depreciated over the estimated useful life of the relevant aircraft until a residual value is met. Engines are depreciated according to actual usage based on cycles flown. When an engine is overhauled the cost of the overhaul is capitalised and the remainder of the cost of the previous overhaul that has not already been depreciated, if any, is expensed in full.

(iii) **Subsequent expenditure**

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

(iv) **Depreciation**

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Items of operating assets are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component unless other systematic method is considered appropriate. Leased assets are depreciated over the shorter of the lease term or their useful lives. The estimated useful lives for the current and comparative periods are as follows:

	Useful life
Aircraft and flight equipment	3-17 years
Engines	Cycles flown
Buildings	17-50 years
Other property and equipment	3-20 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

j. Intangible assets and goodwill

(i) **Goodwill and other intangible assets with indefinite useful lives**

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Goodwill, trademarks and airport slots with indefinite useful lives are stated at cost less accumulated impairment losses.

(ii) **Other intangible assets**

Other intangible assets acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative years are as follows:

	Useful life
Software	3 years
Other intangible assets	6-10 years

43. contd.:

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iii) **Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

k. Leased assets

Leases of operating assets that transfer to the Group sustantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group´s statement of financial position.

l. Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets or deferred tax assets which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribuiton and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and operating assets are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

m. Financial instruments

(i) **Non-derivative financial assets**

Trade receivables and debt securities are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and financial assets measured at amortised cost.

43. contd.:

Financial assets at fair value through profit or loss
Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL. These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at fair value through profit or loss comprise marketable securities actively managed by the Group's treasury department to address short-term liquidity needs.

Financial assets measured at amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets measured at amortised cost comprise cash and cash equivalents and trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(ii) **Non-derivative financial liabilities**
The Company initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities other than derivatives comprise loans and borrowings and trade and other payables.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(iv) **Derivative financial instruments and hedge accounting**
The Group holds derivative financial instruments to hedge its foreign currency, fuel price and interest rate risk exposures (see note 33). Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss. The Group holds no trading derivatives.

43. contd.:

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that ultimately could affect reported profit or loss.

Cash flow hedges
When a derivative is designated as a cash flow hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period during which the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the hedged future cash flows is no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Net investment hedges
When a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of foreign exchange gains and losses is recognised in other comprehensive income and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of foreign exchange gains and losses on the non-derivative is recognised immediately in profit or loss. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

Other non-trading derivatives
When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

n. Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Repurchase and reissue of share capital
When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

43. contd.:

o. Impairment

(i) **Non-derivative financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that loss event had an impact on the estimated future cash flows of that asset which can be estimated reliably.

Objective evidence that financial assets are impaired includes:
Default or delinquency by a debtor;
Restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
Indications that a debtor or issuer will enter bankruptcy;
Adverse changes in the payment status of borrowers or issuers;
The disappearance of an active market for a security because of financial difficulties; or
Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) **Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangibles assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respet of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group of units) on a pro rata basis.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

43. contd.:

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

p. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Overhaul commitments relating to aircraft under operating leases

With respect to the Group´s operating lease agreements, where the Group has a commitment to maintain the aircraft, provision is made during the lease term for the obligation based on estimated future cost of major airframe and certain engine maintenance checks by making appropriate charges to the profit or loss calculated by reference to the number of hours or cycles operated.

Provisions are entered into the statement of financial position among non-current and current payables, as applicable.

q. Deferred income

Sold unused tickets, fair value of unutilized frequent flyer points and other prepayments are presented as deferred income in the statement of financial position.

Icelandair's frequent flyer program

Frequent flyer points earned or sold are accounted for as a liability on a fair value basis of the services that can be purchased for the points. The points are recognized as revenue when they are utilized or when they expire.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date.

r. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for treasury shares held, for the effects of all dilutive potential ordinary shares.

s. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The major revenue-earning assets of the Group is the aircraft fleet, the majority of which is registered in Iceland. Since the Group's aircraft fleet is employed flexibly across its route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

43. contd.:

Inter-segment pricing is determined on an arm's length basis.

Segment results, reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, and income tax assets and liabilities.

44. Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the Group's financial statements in the period of initial application.

a. IFRS 16 Leases

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application; and
- the Group has not made a final decision on a transition option due to the potential sale of Icelandair Hotels.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

(i) Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases of aircraft, storage facilities, hotels, real estate and equipment (see Note 35). The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

No significant impact is expected for the Group's finance leases.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities in the region of USD 280 million as at 1 January 2019 (thereof Icelandair Hotels in the region of USD 188 million).

44. contd.:

(ii) **Leases in which the Group is a lessor**

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change the Group will reclassify certain of its sublease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses will be recognised on the finance lease receivables. The leased assets will be derecognised and finance lease asset receivables recognised. This change in accounting will change the timing of recognition of the related revenue (recognised in finance income).

Based on the information currently available, the Group expects that it will reclassify three sub-lease as a finance lease, resulting in recognition of a finance lease receivable in the region of USD 19 million as at 1 January 2019.

(iii) **Transition**

The Group plans to apply IFRS 16 initially on 1 January 2019 using either the modified retrospective approach, with the cumulative effect of adopting IFRS 16 recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, or the cumulative catch up approach with no impact on Retained earnings as at 1 January 2019. Therefore there will be no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

– The right to obtain substantially all of the economic benefits from the use of an identified asset; and
– The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Corporate Governance Statement

The framework

The Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers, along with the Company's Articles of Association, and rules for Issuers of Securities listed on the NASDAQ OMX Iceland, make up the framework for Icelandair Group's Corporate Governance practices. The Company's Articles of Association are accessible on the Company's website and the guidelines and the rules for Issuers are on the website of NASDAQ OMX Iceland.

The Company complies in all main respect to the rules mentioned above. The Company however does not have a Nomination Committee as the Board of Directors has not seen the need for it. No government organization has found the Company to be in breach with any rule or regulation regarding corporate governance.

In 2012 The Iceland Chamber of Commerce, the Confederation for Icelandic Employers and Nasdaq OMX Iceland hf. granted the Company a recognition for "Exemplary in corporate governance". The aim with the recognition is to increase credibility and transparency of Icelandic companies' corporate governance with respect to shareholders and interested parties.

Internal audit and risk management

The Group's Audit Committee oversees how the management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The committee shall oversee the annual accounts of the Company and the Group's consolidated accounts. The committee is responsible for evaluation of the independence and the eligibility of both the Company´s auditor and auditing firm. The committee shall make suggestions to the Board of Directors regarding the selection of the Company´s auditor. The Audit Committee held ten meetings in 2018.

Audit Commitee:
Ásthildur Margrét Otharsdóttir, Chairman
Guðmundur Hafsteinsson
Heiðrún Jónsdóttir

Values and code of ethics and corporate responsibility

The Company's values are:
WE CARE for our customers, employees, environment and shareholders.
WE THINK CLIENTS through consistency, reliability, clear product alternatives and friendly service.
WE DRIVE RESULTS via teamwork, shared information and values, accountability and profitability.

On 25 May 2009 the Board of Directors approved a Code of Ethics which was amended on 5 January 2011 and 18 November 2016. The Code of Ethics is accessible to all Company's employees through the Company's intranet, MyWork.

Compensation Committee

The purpose of the Compensation Committee is to avoid placing the Company's management in control of their own remuneration and, furthermore, to ensure that the management's remuneration is structured so as to serve the long-term interests of shareholders. The main tasks of the Compensation Committee are policy making with respect to the management's performance related bonuses, including stock options. The Committee conducts evaluations of management remuneration and monitors the management's acquisition of stock in the Company. The Compensation Committee meets on average four times a year.

Compensation Committee
Úlfar Steindórsson, Chairman
Ómar Benediktsson

The Board of Directors and Executive Committee

Board of Directors

Úlfar Steindórsson, Chairman

Born in 1956 and is CEO and Chairman of Toyota in Iceland ehf. and Jú ehf. He was CEO of Primex ehf in Siglufjordur from 2002-2004, and CEO of the New Business Venture Fund from 1999-2002. Úlfar is chairman of the board of Eignarhaldsfélagið Bifreiðar ehf., Bifreiðainnflutningur ehf., Bílaútleigan ehf., Okkar bílaleiga ehf., and TK bílar ehf. He is a Board member of Toyota á Íslandi ehf, Króksslóð ehf, TMH Iceland ehf, AB 257 ehf, UK fjárfestingar ehf, Johan Rönning hf, S.Guðjónsson ehf., Skorri ehf., My Car ehf. and UK fjárfestingar ehf. Úlfar holds a Cand. Oecon degree from the University of Iceland and an MBA from Virginia Commonwealth University. He joined the Board on 15 September 2010.

Ómar Benediktsson, Deputy Chairman

Is the CEO of Farice ehf. He is a Board Member of Landsnet hf. and Húsafell Resort ehf. Ómar has held various positions in the tourist and aviation industry in the past 30 years, among others at Island Tours, Islandsflug, Air Atlanta and SmartLynx airlines as well as being a Board Member on various boards in the industry. Ómar has a Cand. Oecon degree from the University of Iceland.

Ásthildur Margrét Otharsdóttir

Born in 1968 and is an independent management consultant with prior business experience as Global Director of Treasury and Corporate Development at Össur hf., Senior Account Manager at Kaupthing Bank hf. and Management Consultant at Accenture in Copenhagen. She is Chairman of the Board of Directors of Marel hf. and Frumtak 2 Venture Fund. Ásthildur is a member of the Council of the University of Iceland and the Court of Arbitration of the Icelandic Chamber of Commerce. Ásthildur has an MBA degree from the Rotterdam School of Management, Erasmus University and a Cand. Oecon degree from the University of Iceland. She joined the Board on 23 March 2012.

Guðmundur Hafsteinsson

Guðmundur leads product development for Google Assistant at Google. He joined Google in 2014 subsequent to the Merger of Google and Emu, a chat based virtual assistant start-up he founded in 2012. Prior to the founding of Emu, he was VP Product at Siri, and stayed on after the acquisition by Apple through the launch of Siri on iPhone 4S. Prior to Siri/Apple, Guðmundur was a Senior Product Manager at Google, where he managed the initial launches of Google Maps for mobiles and Google Voice Search. Guðmundur holds an MBA degree from MIT and a B.Sc. degree in Electrical and Computer Engineering from the University of Iceland.

Heiðrún Jónsdóttir

Heiðrún Jónsdóttir is an attorney. Heiðrún is a member of the Board of Directors at Íslandsbanki and Olíuverslun Íslands. Heiðrún is the former chairman of the Board of Directors at Gildi Pension Fund, Norðlenska and Íslensk Verðbréf. She is a former member of the board of Síminn hf. and Ístak. Heiðrún was the public relations officer of Landssíminn hf from 2001-2003, Managing Director and Partner at Lex Legal Services from 2003-2005. From 2006 until 2012 she was the Vice President of legal affairs and public relations at Hf. Eimskipafélag Íslands. Heiðrún has a law degree from the University of Iceland, is a District Court Attorney and has finished an Advanced Management Program from IESE Business School in Barcelona.

Executive committee

Bogi Nils Bogason, President & CEO

Bogi Nils started his career within Icelandair Group in October 2008. He was the CFO of Askar Capital from January 2007 until he joined Icelandair Group and the CFO of Icelandic Group from 2004-2006. Bogi Nils served as an auditor and partner at KPMG in Iceland during the years from 1993-2004. Bogi Nils holds a Cand Oecon degree in Business from the University of Iceland and became licensed as a chartered accountant in 1998.

Birna Ósk Einarsdóttir, Chief Business Development Officer
Elísabet Helgadóttir, Chief Human Resources Officer
Eva Sóley Guðbjörnsdóttir, Chief Financial Officer
Gunnar Már Sigurfinnsson, Chief Commercial Officer
Jens Bjarnason, Chief Corporate Affairs Officer
Jens Þórðarson, Chief Operating Officer
Magnea Þórey Hjálmarsdóttir, Managing Director of Icelandair Hotels

Board of Directors

The Company's Board of Directors exercises the supreme authority in the Company's affairs between shareholders' meetings, and it is entrusted with the task of ensuring that the organisation and activities of the Company's operation are at all times in correct and proper order.

The Board of Directors is instructed in the Company's Articles of Association to appoint a President and CEO for the Company and decide the terms of his or her employment. The Board of Directors and President and CEO are responsible for the management of the Company.

The Company's Board of Directors must at all times ensure that there is adequate supervision of the Company's accounts and the safeguarding of its assets and shall adopt working procedures in compliance with the Companies Act. Only the Board of Directors may assign powers of procuration on behalf of the Company. The signatures of the majority of the members of the Board are required to bind the Company. The President and CEO has charge of the day-to-day operation of the Company and is required in his work to observe the policy and instructions set out by the Company's Board of Directors. Day-to-day operation does not include measures which are unusual or extraordinary. Such measures can only be taken by the President and CEO with the specific authorization of the Board of Directors, unless it is impossible to await the decision of the Board without seriously disadvantaging the operation of the Company. In such instances, the President and CEO is required to consult with the Chairman of the Board, if possible, after which the Board of Directors must immediately be notified of the measures. The President and CEO shall ensure that the accounts and finances of the Company conform to the law and accepted practices and that all assets belonging to the Company are securely safeguarded. The President and CEO is required to provide the members of the Board of Directors and Company auditors with any information pertaining to the operation of the Company which they may request, as required by law.

Board of Directors contd.:

The Company's Board of Directors consists of five members elected at the annual general meeting for a term of one year. Those who intend to stand for election to the Board of Directors must inform the Board in writing of their intention at least seven days before the annual general meeting, or extraordinary shareholders' meeting at which elections are scheduled. Only those who have informed the Board of their candidacy are eligible.

The Board of Directors elects a Chairman and Deputy Chairman from its members, and otherwise allocates its obligations among its members as needed. The Chairman calls Board meetings. A meeting must also be held if requested by a member of the Board of Directors or the President and CEO. Meetings of the Board are valid if attended by a majority of its members. However, important decisions shall not be taken unless all members of the Board have had an opportunity to discuss the matter, if possible. The outcome of issues is decided by force of vote, and in the event of an equality of votes, the issue is regarded as rejected. The President and CEO attends meetings of the Board of Directors, even if he or she is not a member of the Board, and has the right to participate in discussions and submit proposals unless otherwise decided by the Board in individual cases. A book of minutes is kept of proceedings at meetings and must be signed by participants in the meeting. A Board member who disagrees with a decision made by the Board of Directors is entitled to have his or her dissenting opinion entered in the book of minutes. The same applies to the President and CEO. The Chairman is responsible for the Board's relations with the shareholders and he shall inform the Board on the views of the shareholders.

On 12 September 2007 the Board of Directors approved Rules on Working Procedures for the Board which were amended on 10 August 2012 and 9 February 2018. The Rules on Working Procedures are accessible to the Board of Directors and the management through the Board's intranet, Coredata. In accordance with article 14 of the Rules on Working Procedures the Board of Directors must annually evaluate its work, size, composition and practices, and must also evaluate the performance of the CEO and others responsible for the day-to-day management of the Company and its development. The annual performance assessment is intended to improve working methods and increase the efficiency of the Board. The assessment entails e.g. evaluation of the strengths and weaknesses of the Board's work and practices and takes into consideration the work components which the Board believes may be improved.

The Board of Directors elects the members of the two sub-committees; the Compensation Committee and the Audit Committee. The sub-committees adhere to the Rules on Working Procedures. The Board of Directors convened nineteen times during the year and all Board Members attended almost all meetings. All the Members of the Board of Directors are independent from the Company, except Ásthildur Margrét Otharsdóttir. All Board members were independent of the Company's major shareholders in 2018.

Non-Financial Reporting

Business Model

Icelandair Group operates in the international airline and tourism sectors with Iceland as the focal point of its international flight operations. Icelandair Group's core business is built on Icelandair's route network and on marketing Iceland as a year-round destination. In addition to the international flights, operated by Icelandair, the Group has equity investments in the aviation industry and within the Icelandic tourism industry.

Sustainable value creation for the Company's shareholders and other stakeholders lies at the heart of Icelandair Group's business model. It consists of three operating pillars that support the Company's vision – the growth of Icelandic tourism, the growth of connecting VIA traffic and a combination of flexibility and experience.

Environment

Icelandair Group is an environmentally conscious company, committed to addressing its environmental responsibilities. All Icelandair Group subsidiaries have received international environmental certifications from third party auditors.

Icelandair Group's environmental impact is not limited to its flight operations. It also involves ground facilities, offices, vehicles and maintenance areas. The Company's goal is to maximise the use of green energy, increase energy efficiency and minimise waste in all of its operations by embracing sustainable solutions.

Icelandair Group's Environmental Policy describes the Company's approaches to protecting and preserving the environment. All the Company's employees are responsible for compliance with the policy. Management at all the Company's subsidiaries and entities have adopted guidelines and procedures to comply with the Company's Environmental Policy.

Minimising the environmental impact of its operations is an important part of Icelandair Group's business plan with the focus on employing sustainable practices and ensure optimal use of the resources at our disposal.

Icelandair Group is committed to minimising its impact on the environment by continuously improving the Company's environmental performance, by using sustainable materials and disposing of them in a responsible way, by conducting business with environmentally friendly suppliers and by adhering to environmental protection principles.

Icelandair Group shares important principles with its subsidiaries.

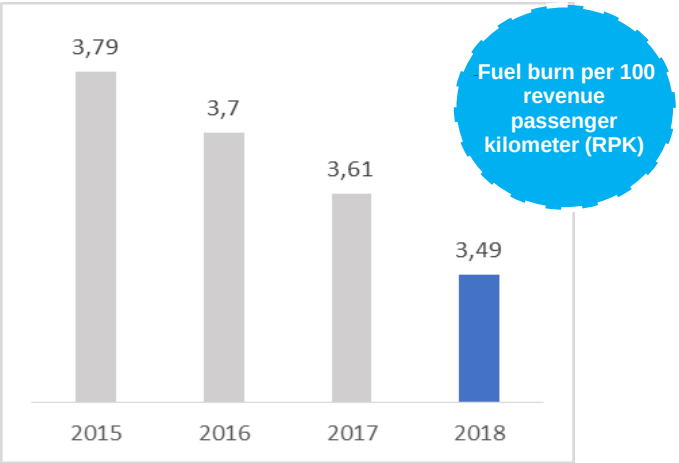
Non-Financial Reporting, contd.:

In addition to compliance with applicable laws and regulations, the Company demonstrates its commitment to this policy through:

– Minimising carbon footprint and raising awareness
– Reducing waste by increasing recycling
– Promoting responsible use of resources
– Increasing the use of environmentally friendly products and services

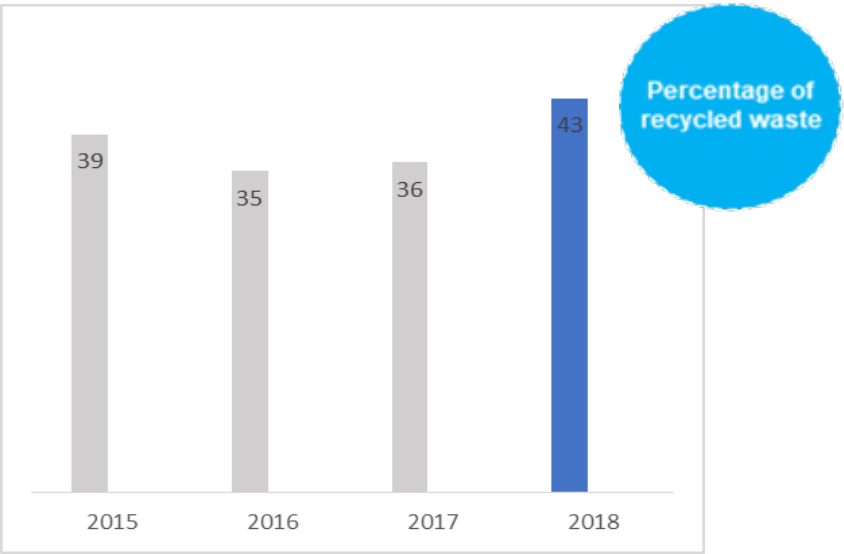
Icelandair Group is committed to supporting continuous improvements by setting measurable targets, raising awareness and benchmarking performance.

An example of measurable improvements is that Icelandair has undertaken various measures to improve aircraft fuel efficiency, such as adding winglets to all airplanes and changing landing approaches with visible results.



Icelandair Group has initiated various projects to improve waste recycling overall within the Company.

As an integrated part of the Environmental Management System risk assessments have been carried out on a regular basis and appropriate actions have been initiated.



Society

Icelandair Group is a part of the Icelandic society and is proud of its role in the Icelandic community. The Company continues to seek new opportunities to expand its ties to society at large. That is how the Group harnesses the power of the Icelandic tourism industry for the benefit of Iceland as a nation. The Company focuses on creating sustainable value for its stakeholders by integrating a wide range of efforts to ensure social responsibility.

Icelandair supports and works alongside students and teachers at Reykjavik University on a wide range of projects on annualy basis. Knowledge-sharing is key and each year we strive to engage new talent to work on various projects within the Company.

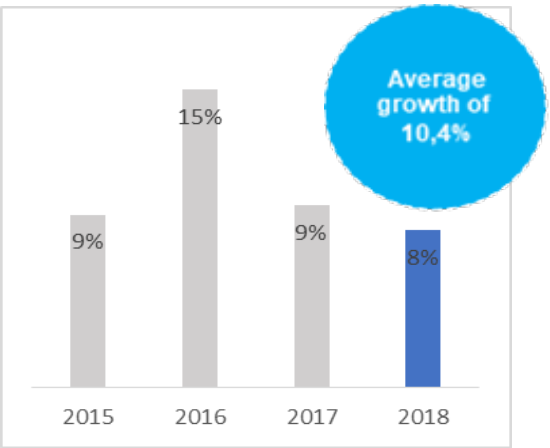
Icelandair Group is a leading shareholder of the Icelandic Tourism Fund, an investment fund focused on new projects that increase the diversity of Icelandic tourism and strengthen its infrastructure. A key focus is on all-year-round projects that provide additional recreational options for tourists and make better use of the existing infrastructure, in particular over the winter season.

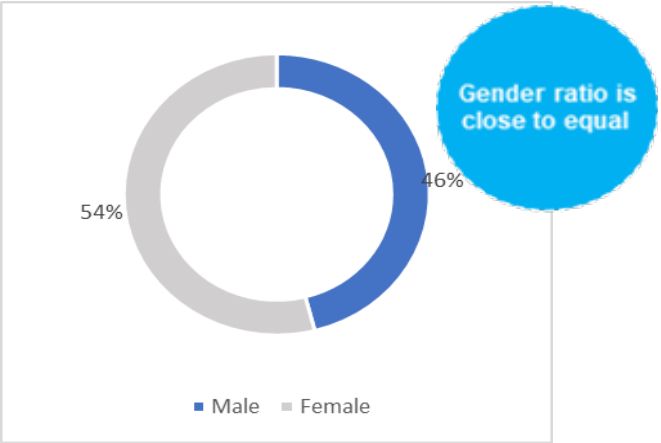
The main objective of Icelandair's Special Children Travel Fund, established in 2003, is to help children suffering from long-term illnesses or other difficult circumstances to travel with their families. The fund is supported both directly by Icelandair and through the generous donations of its customers. In 2018, 40 children and their families received travel grants from the fund to go on their "dream journey".

Icelandair Group has since December 2014 been one of the main sponsors of ICE-SAR, the Icelandic Search and Rescue operation. The Company's objective is to provide support to enable the organisation to engage in efficient accident prevention and rescue efforts and to enhance the safety of tourists travelling in Iceland. The purpose of the co-operation is to represent an important factor in promoting safer tourism by various means, including the sponsorship and marketing of the www.safetravel.is website to tourists through Icelandair Group's distribution channels. Icelandair Group's subsidiary, Icelandair Hotels, promotes safer tourism in all of its properties and has conversations with its guests by distributing safe travel cards and educate them about the road system and weather conditions, for example.

Employees

Icelandair Group has grown at an extremely robust pace in recent years, adding many destinations, increasing the number of its passengers and the number of hotel rooms, and generally growing across all segments. As the business has expanded, so has the Company's staff, which has increased annually in number by 10,4% on average. Full time equivalents were 4,604 on average in 2018. The gender ratio in 2018 within Icelandair Group is close to equal.





Icelandair Group's HR strategy emphasizes equality and non-discrimination and embraces diversity. The Group makes sure that its employees are provided equal opportunities and equal rights are a part of the Equal Rights Policy and Equal Rights Plan which have been approved by the Management Board.

Icelandair Group seeks to attract talented and qualified employees who can help the Company meet the challenges of the future while at the same time fitting into the existing corporate culture. The onboarding process, goals and measurable targets are being developed for 2019.

It is important that Icelandair Group employees have the drive to develop and learn every day so that the Company can perform better today than yesterday. We provide access for our employees to further development and training. Several courses for work development have been scheduled. Icelandair Group upholds safety and security standards and we have in place detailed action plans designed to achieve our goals, mandatory training is carried out for all employees working in a risk environment and occupational health and safety policy is a natural part of new employee training.

We make every effort to improve the well-being of our employees, maintaining an attractive, yet challenging and demanding workplace, and enabling them to flourish and achieve their highest potential. A comprehensive Health and Attendance Policy has been put forward, alongside its introduction, even more emphasis is being placed on employees' health and wellbeing, and by offering various health lectures and other initiatives.

Early 2018 Icelandair Group sharpened its policy and actions against bullying, sexual and gender-related harassment and violence. The policy and its related actions include clear procedures and preventive measures. Information on the policy can be accessed on the intranet, together with a plan of action that details the options available to employees who feel victimised. All managers received appropriate training and open lectures were held for all employees to attend.

In accordance with the Gender Equality Act No. 10/2008 Icelandair Group has implemented an Equal Pay Policy in order to improve gender equality and to acquire an Equal Pay Certification. The Company wishes to enforce the current legislation which prohibits discriminatory practices based on gender and requires women and men working for the same employer to be paid equal wages and enjoy equal terms of employment for the same jobs or jobs of equal value. Icelandair Group has been certified and expects to receive the Equal Pay Certificate in February 2019.

Above all, Icelandair Group endeavours to make sure that all its employees feel that they are part of a team. Every year work audit surveys are carried out among Icelandair Group employees and the next one is scheduled in February 2019. The aim of the surveys is to measure various indicators, such as employee engagement, leadership performance, adherence to relevant company policies. It is also used to evaluate the Company's HR strategy and to measure how preventive actions that have been taken since the last work audit have impacted employees.

Anti-corruption and bribery policy

Icelandair Group's anti-corruption and bribery policy establishes the Group's and all its subsidiaries' global standards regarding the prevention of corruption and bribery. The Company policy is to conduct all its business in an honest and ethical manner and the integrity of each and every member of staff serves to maintain the good reputation and trust of Icelandair Group. The Company policy addresses bribery and corruption, facilitation payments, extortion and whistle-blowing. The policy applies to the entire Icelandair Group workforce at all levels and grades (whether permanent, fixed-term or temporary), and all operations, subsidiaries and affiliates in all countries where the Company operates. All persons, representing or performing services for or on behalf of Icelandair Group must comply with applicable anti-bribery and anti-corruption legislation and policies and Icelandair Group's Code of Conduct. Those who work for or on behalf of Icelandair Group will not be penalised in any way for business advantage lost due to adherence to this policy. Deviations or non-compliance, including attempts to circumvent or manipulate this policy, may result in disciplinary action, including termination.

Human Rights Policy

Icelandair Group respects human rights, as set out in the UN Universal Declaration of Human Rights and requires all its employees to treat others with trust, dignity, respect, fairness and equity. The Company respects fair labour practices and contractors, sub-contractors or work agencies working for Icelandair Group shall ensure that wages, wage-related obligations and safety in the workplace all comply with Icelandair Group's standards. All Cabin Crew have been trained in relation to Human Trafficking Awareness and preventive actions.

Futher information

Further information about Icelandair Group's Corporate Social Responsibility and non-financial aspects of the business is published in the Company's Annual Report as well as on the Company's website, www.icelandairgroup.is.

Quarterly statements (unaudited)

Unaudited summary of the Group's operating results by quarters:

	Q1	Q2	Q3	Q4	Total
Year 2018					
Operating income	267.624	398.901	545.193	298.800	1.510.518
Operating expenses excluding depreciation	(285.835)	(384.208)	(430.200)	(333.796)	(1.434.039)
Operating (loss) profit bef. depr. (EBITDA)	(18.211)	14.693	114.993	(34.996)	76.479
Depreciation	(28.002)	(34.491)	(36.698)	(34.256)	(133.447)
Operating (loss) profit (EBIT)	(46.213)	(19.798)	78.295	(69.252)	(56.968)
Net finance income (expense)	1.408	(11.975)	(1.575)	(452)	(12.594)
Share of profit (loss) of associates	1.266	293	213	(20)	1.752
(Loss) profit before income tax	(43.539)	(31.480)	76.933	(69.724)	(67.810)
Income tax	9.011	5.752	(14.904)	12.381	12.240
(Loss) profit	(34.528)	(25.728)	62.029	(57.343)	(55.570)
Other comprehensive profit (loss)	7.583	611	(16.329)	(46.722)	(54.857)
Total comprehensive (loss) income	(26.945)	(25.117)	45.700	(104.065)	(110.427)
Net cash from (used in) operating activities	67.115	60.062	(50.635)	(14.989)	61.553
Net cash (used in) from investing activities	(129.159)	(60.861)	(76.540)	136.627	(129.933)
Net cash from financing activities	30.802	52.412	62.976	3.146	149.336
Year 2017					
Operating income	222.075	367.300	537.032	291.580	1.417.987
Operating expenses excluding depreciation	(232.052)	(326.725)	(381.128)	(308.006)	(1.247.911)
Operating (loss) profit bef. depr. (EBITDA)	(9.977)	40.575	155.904	(16.426)	170.076
Depreciation	(25.887)	(30.850)	(34.291)	(29.403)	(120.431)
Operating (loss) profit (EBIT)	(35.864)	9.725	121.613	(45.829)	49.645
Net finance (expense) income	(1.944)	1.959	397	(2.007)	(1.595)
Share of profit (loss) of associates	470	61	(109)	170	592
(Loss) profit before income tax	(37.338)	11.745	121.901	(47.666)	48.642
Income tax	7.454	(1.835)	(24.716)	7.993	(11.104)
(Loss) profit	(29.884)	9.910	97.185	(39.673)	37.538
Other comprehensive (loss) profit	(13.201)	5.628	486	13.026	5.939
Total comprehensive (loss) income	(43.085)	15.538	97.671	(26.647)	43.477
Net cash from (used in) operating activities	125.497	90.801	(19.749)	9.054	205.603
Net cash used in investing activities	(75.782)	(51.297)	(53.154)	(48.186)	(228.419)
Net cash from (used in) financing activities	23.520	(6.416)	(2.399)	(151)	14.554

Icelandair Group hf.

Consolidated Financial Statements
for the year 2017

USD

Icelandair Group hf.
Reykjavíkurflugvöllur
101 Reykjavík
Iceland
Reg. no. 631205-1780

Contents

Endorsement and Statement by the Board of Directors and the CEO

Operations in the year 2017

These financial statements comprise the consolidated financial statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The Group operates in the airline and tourism sectors with Iceland as a cornerstone of an international route network.

Profit for the year 2017 amounted to USD 37.7 million and total comprehensive income amounted to USD 43.6 million according to the consolidated statement of comprehensive income. Total equity at year end 2017 amounted to USD 591.5 million, including share capital of USD 39.5 million, according to the consolidated statement of financial postition. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity during the year.

The Board of Directors proposes a dividend payment to shareholders in 2018 of ISK 750 million, equal to USD 7.2 million, which represents 19% of profit for the year 2017.

Share capital and Articles of Association

The nominal value of the Company's issued share capital amounted to ISK 5.0 billion at year-end, of which the Company held treasury shares of ISK 139.5 million. The share capital is divided into shares of ISK 1, each with equal rights within a single class of shares listed on the Icelandic Stock Exchange (Nasdaq OMX Iceland). Companies can aquire and hold up to 10% of the nominal value of treasury shares according to the Icelandic Company's Act. During the year the Company purchased 114 million shares for USD 15.2 million according to a share purchase program authorised at the Company's annual general meeting.

The Company's Board of Directors comprises five members elected at the annual general meeting for a term of one year. Those persons willing to stand for election must give formal notice thereof to the Board of Directors at least five days before the annual general meeting. The Company's Articles of Association may only be amended at a legitimate shareholders' meeting, provided that amendments and their main aspects are clearly stated in the invitation to the meeting. A resolution will only be valid if it is approved by at least 2/3 of votes cast and is approved by shareholders controlling at least 2/3 of the share capital represented at the shareholders' meeting.

The number of shareholders at year end 2017 was 2,393 a decrease of 166 during the year. At year end 2017 the 10 largest shareholders were:

Name	Shares in ISK thousand	Shares in %
Lífeyrissjóður verslunarmanna	734.361	14,69
Stefnir Sjóðir	543.194	10,86
Lífeyrissjóður starfsmanna ríkisins A deild og B deild	472.725	9,45
Gildi - lífeyrissjóður	369.261	7,39
Birta lífeyrissjóður	348.369	6,97
Stapi lífeyrissjóður	203.654	4,07
Frjálsi lífeyrissjóðurinn	176.006	3,52
Brú - Lífeyrissjóður starfsmanna sveitarfélaga	133.400	2,67
Landsbréf - Úrvalsbréf	131.636	2,63
Traðarhyrna ehf.	102.300	2,05
	3.214.906	64,30
Other shareholders	1.645.634	32,91
Treasury shares	139.460	2,79
	5.000.000	100,00

Further information on matters related to share capital is disclosed in note 27. Additional information on shareholders is provided on the Company's website www.icelandairgroup.com.

Endorsement and statement by the Board of Directors and the CEO, continued:

Corporate Governance

The Group's management is of the opinion that practicing good Corporate Governance is vital for the existence of the Group and in the best interests of the shareholders, Group companies, employees and other stakeholders and will in the long run produce satisfactory returns on shareholders' investment. Corporate Governance exercised within Icelandair Group hf. ensures sound and effective control of the Company´s affairs and a high level of business ethics.

The framework for Corporate Governance practices within the Group consists of the provisions of law, the parent company's Articles of Association, general securities regulations and the Icelandic Corporate Governance guidelines issued by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and the Confederations of Icelandic Employers. Corporate Governance practices ensure open and transparent relationships between the Company´s management, its Board of Directors, its shareholders and other stakeholders.

The Board of Directors has prepared a Corporate Governance Statement in compliance with the Icelandic Corporate Governance guidelines which are described in full in the Corporate Governance Statement in the consolidated financial statements. It is the opinion of the Board of Directors that Icelandair Group hf. complies with the Icelandic guidelines for Corporate Governance.

Information on matters related to financial risk management is disclosed in note 33.

Non-Financial Reporting

The Company is a large public-interest entity. According to changes made to the Icelandic Financial Statements Act in June 2016 such companies should disclose in their management report relevant and useful information on their policies, main risks and outcomes relating to at least environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues in addition to a short description of the Company's business model. The Company's policies and outcome of these matters are further discussed in the Non-Financial Reporting in the consolidated finanical statements.

Statement by the Board of Directors and the CEO

The consolidated financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for financial statements of listed companies.

According to our best knowledge it is our opinion that the annual consolidated financial statements give a true and fair view of the consolidated financial performance of the Company for the year 2017, its assets, liabilities and consolidated financial position as at 31 December 2017 and its consolidated cash flows for the year 2017.

Further, in our opinion the consolidated financial statements and the endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the consolidated financial statements of Icelandair Group hf. for the year 2017 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the consolidated financial statements will be approved at the annual general meeting of Icelandair Group hf.

Reykjavík, 9 February 2018.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board
Ásthildur Margrét Otharsdóttir
Georg Lúðvíksson
Katrín Olga Jóhannesdóttir
Ómar Benediktsson

CEO:
Björgólfur Jóhannsson

Independent Auditors' Report

To the board of directors and shareholders of Icelandair Group hf.

Report on the audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Icelandair Group hf. (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of ethics for Icelandic auditors, which are based on the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have also fulfilled other ethical requirements of that rules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit responded to the key audit matter
Timing and accuracy of revenue recognition of passenger income *Reference is made to note 7 "Operating income" and 32 "Deferred income".* Passenger ticket sale is presented as deferred income in the consolidated statement of financial position until transportation has been provided. Then the sale is recognized as revenue. Large volume of transactions flow through various computer systems from the date of sale until revenue is recognized in the consolidated statement of profit or loss. The recording process is complex which gives rise to an inherent risk of errors, in determining the amount and timing of the revenue recognition. Timing and accuracy in the registration of passenger income is therefore one of the key audit matters of our audit of the consolidated financial statements.	Our audit procedures were designed to challenge the accuracy of the revenue recognition. These procedures included testing of controls over the Group's systems which govern the passenger ticket sale. We used the service of our IT specialists to test the appropriate controls such as access control, change management control and automated controls of the revenue systems. We also tested non-automated controls. The purpose of the testing was to assess if the design of controls was likely to ensure the accuracy and timing of the revenue recognition of passenger income and to test operating effectiveness of controls and as such evaluated the management monitoring of controls. We analysed passenger revenue and used external and internal information to set expectations which were compared to recognized revenue. We used substantive testing where we tested reconciliations between systems and revenue cut offs.

Independent Auditors' Report continued:

Key audit matter	How our audit responded to the key audit matter
Expected recoverable amount of intangible assets and goodwill *Reference is made to note 16 "Intangible assets and goodwill" and 42h "Impairment".* The carrying value of goodwill amounted to USD 141.1 million and other intangible assets were USD 39.3 million at year end 2017 as specified in note 16. The carrying value of intangible assets has been allocated to the applicable cash generating units within the Group. Management is required to perform an impairment test annually on goodwill and other intangible assets with indefinite useful lives. The purpose of an impairment test is to determine if goodwill and other intangible assets can be recovered through future cash flows. The recoverable amounts of individual cash generating units are determined by discounting the expected future cash flows generated from the continuing use of the units. The expected recoverable amount of intangible assets is one of the key audit matters due to the significance to the Group's consolidated statement of financial position, and due to inherent uncertainty involved in forecasting and discounting future cash flows which are the basis of the assessment of the recoverability of the intangible assets.	We used the service of our valuation specialists to assess the valuation models and assumptions used by management in their calculations of expected recoverable amount of each cash generating unit. We assessed management assumptions by comparing them to both internal and external industry information. Our procedures included among others: - Management forecasts for each cash generating unit for the explicit period were compared to forecasts presented to the Board, historic revenue amounts, growth rates and historic industry statistics. Forecasts from prior periods were also compared to actual results to test its accuracy. - Assessing the reasonableness of management forecasts of the long term growth rate. - Assessing the reasonableness of management forecasts for changes in margins, new investments, utilization and changes in pricing. - Assessing the reasonableness of the discount rates applied by comparing them to current finance cost and market conditions for the cash generating units. - Review of information in the notes to the financial statements to confirm that all information required by applicable accounting policies were provided.

Other information

The Board of Directors and CEO are responsible for other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this auditor's report. In connection with our audit of the consolidated financial statements, our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report such matters.

Independent Auditors' Report continued:

Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and the CEO are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Group or cease operations, or have no realistic alternative but to do so.

The Board of Directors and CEO are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report continued:

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and were applicable, related safeguards.

From the matters communicated with The Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the endorsement and statement by the Board of Directors and the CEO

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statements Act no. 3/2006, we confirm that, to the best of our knowledge, the statement by the Board of Directors and the CEO accompanying the consolidated financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the consolidated financial statements.

Alexander G. Eðvardsson and Auður Þórisdóttir, auditors, are responsible for the audit of the financial statements and this auditor's report.

Reykjavik, 9 February 2018.

KPMG ehf.

Alexander G. Eðvardsson
Auður Þórisdóttir

Consolidated statement of profit or loss and other comprehensive income for the year 2017

	Notes	2017	2016
Operating income			
Transport revenue	7	1.033.268	947.823
Aircraft and aircrew lease		87.701	84.574
Other operating revenue	7	298.559	253.177
		1.419.528	1.285.574
Operating expenses			
Salaries and other personnel expenses		445.162	354.253
Aviation expenses		456.012	420.250
Other operating expenses		348.129	291.226
	8	1.249.303	1.065.729
Operating profit before depreciation and amortisation (EBITDA)		170.225	219.845
Depreciation and amortisation	10	(120.431)	(101.408)
Operating profit (EBIT)		49.794	118.437
Finance income		14.083	6.414
Finance costs		(15.678)	(5.697)
Net finance (costs) income	11	(1.595)	717
Share of profit of associates	18	592	957
Profit before tax		48.791	120.111
Income tax	21	(11.134)	(31.043)
Profit for the year		37.657	89.068
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Currency translation differences		8.448	9.100
Effective portion of changes in fair value of cash flow hedge, net of tax		(2.509)	40.482
Other comprehensive income for the year		5.939	49.582
Total comprehensive income for the year		43.596	138.650
Owners of the Company		37.438	88.820
Non-controlling interests		219	248
Profit for the year		37.657	89.068
Total Comprehensive income attributable to:			
Owners of the Company		42.645	138.367
Non-controlling interests		951	283
Total comprehensive income for the year		43.596	138.650
Earnings per share:			
Basic earnings per share in US cent per share	28	0,77	1,79
Diluted earnings per share in US cent per share	28	0,77	1,79

The notes on pages 13 to 53 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position as at 31 December 2017

	Notes	2017	2016
Assets:			
Operating assets	12-15	652.705	602.615
Intangible assets and goodwill	16-17	180.422	174.704
Investments in associates	18	29.629	23.497
Deferred cost	19	0	63
Receivables and deposits	20	97.030	74.098
Non-current assets		959.786	874.977
Inventories	22	26.801	23.963
Derivatives used for hedging		18.450	20.560
Trade and other receivables	23	177.275	118.720
Assets held for sale	24	7.500	4.148
Short term investments	25	4.087	23.236
Cash and cash equivalents	26	221.191	226.889
Current assets		455.304	417.516
Total assets		1.415.090	1.292.493
Equity:			
Share capital		39.532	40.576
Share premium		140.519	154.705
Reserves		127.407	114.849
Retained earnings		282.739	257.696
Equity attributable to equity holders of the Company	27	590.197	567.826
Non-controlling interests		1.338	387
Total equity		591.535	568.213
Liabilities:			
Loans and borrowings	29	280.254	196.722
Payables	30	17.239	13.289
Deferred tax liabilities	21	59.633	58.179
Non-current liabilities		357.126	268.190
Loans and borrowings	29	9.287	45.660
Derivatives used for hedging		1.383	436
Trade and other payables	31	232.188	210.107
Deferred income	32	223.571	199.887
Current liabilities		466.429	456.090
Total liabilities		823.555	724.280
Total equity and liabilities		1.415.090	1.292.493

The notes on pages 13 to 53 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year 2017

	Attributable to equity holders of the Company						
2016	**Share capital**	**Share premium**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2016	40.576	154.705	1.400	259.746	456.427	104	456.531
Total comprehensive income			49.547	88.820	138.367	283	138.650
Profit of subsidiaries and associates in excess of dividend received			63.902	(63.902)			
Dividend (0.54 USD cent per share) .				(26.968)	(26.968)		(26.968)
Balance at 31 December 2016	40.576	154.705	114.849	257.696	567.826	387	568.213
2017							
Balance at 1 January 2017	40.576	154.705	114.849	257.696	567.826	387	568.213
Purchase of treasury shares	(1.044)	(14.186)			(15.230)		(15.230)
Total comprehensive income			5.207	37.438	42.645	951	43.596
Profit of subsidiaries and associates in excess of dividend received			7.351	(7.351)			
Dividend (0.10 USD cent per share) .				(5.044)	(5.044)		(5.044)
Balance at 31 December 2017	39.532	140.519	127.407	282.739	590.197	1.338	591.535

Information on changes in other reserves is provided in note 27.

The notes on pages 13 to 53 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year 2017

	Notes	2017	2016
Cash flows from operating activities:			
Profit for the year		37.657	89.068
Adjustments for:			
Depreciation and amortisation	10	120.431	101.408
Expensed deferred cost		10.051	8.418
Net finance costs		1.595	(717)
Loss (gain) on sale of operating assets		264	(782)
Gain on sale of investments		0	(94)
Share in profit of associates		(592)	(957)
Tax expense		11.134	31.043
		180.540	227.387
Changes in:			
Inventories, increase		(2.838)	(3.800)
Trade and other receivables, decrease (increase)		11.792	(4.512)
Trade and other payables, increase		15.816	226
Deferred income, increase		23.684	13.815
Cash generated from operating activities		48.454	5.729
Interest received		3.354	3.298
Interest paid		(16.618)	(5.267)
Income taxes paid		(10.127)	(22.123)
Net cash from operating activities		205.603	209.024
Cash flows to investing activities:			
Acquisition of operating assets	12	(149.213)	(231.117)
Proceeds from sale of operating assets		1.415	1.160
Acquisition of intangible assets	16	(5.661)	(1.603)
Deferred cost, change		(4.176)	(10.677)
Investment in subsidiaries and associates		(3.335)	(5.994)
Non-current receivables, change		(86.661)	(39.852)
Short term investments, change		19.212	(3.676)
Net cash used in investing activities		(228.419)	(291.759)
Cash flows to financing activities:			
Purchase of treasury shares	27	(15.230)	0
Dividend paid		(5.044)	(26.968)
Proceeds from loans and borrowings		45.384	150.700
Repayment of loans and borrowings		(10.556)	(10.089)
Net cash from financing activities		14.554	113.643
(Decrease) increase in cash and cash equivalents		(8.262)	30.908
Effect of exchange rate fluctuations on cash held		2.564	1.395
Cash and cash equivalents at beginning of the year		226.889	194.586
Cash and cash equivalents at 31 December	26	221.191	226.889
Investment and financing without cash flow effect:			
Aquisition of operating assets		(7.081)	0
Proceeds from loans and borrowings		7.081	0

The notes on pages 13 to 53 are an integral part of these consolidated financial statements.

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The address of the Company´s registered office is at Reykjavíkurflugvöllur in Reykjavík, Iceland. The consolidated financial statements for the Company as at and for the year ended 31 December 2017 comprise the Company and its subsidiaries, together referred to as the “Group” and individually as "Group entities" and the Group´s interests in associates. The Group primarily operates in the airline and tourism industry. The Company is listed on the Nasdaq OMX Iceland.

2. Basis of preparation

a. Statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. They were authorised for issue by the Company's board of directors on 9 February 2018.

b. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments and certain short-term investments are stated at their fair values.

Details of the Group's accounting policies, including changes during the year, are included in Note 42.

3. Functional and presentation currency

The Company's functional currency is U.S. dollars (USD). These Consolidated Financial Statements are presented in U.S dollars (USD), except for information in note 38 on salaries and benefits of management for their service to Group companies. Payments to management are denominated and presented in ISK. All financial information presented in USD has been rounded to the nearest thousand, unless otherwise indicated.

4. Changes in presentation

Segment reporting

The Group´s reportable segments have in previous years been presented as Route Network, Tourism Services and Shared Service. A new segment reporting that better reflects the Group´s operations has been introduced and presented in these financial statements. According to the new presentation the reportable segments are, International Flight Operations, Aviation Investments and Tourism Investments. Comparision information for the previous year has been restated to reflect the new reporting.

5. Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2017 is included in the following notes:

Note 17 - measurement of the recoverable amounts of cash-generating units;
Note 32 - deferred income;
Note 34 - Financial instruments and values.

Measurement of fair values

A number of the Group’s accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. The Director of Risk Management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The Risk Committee regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are catagorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 25 - short term investments;
Note 32 - deferred income;
Note 34 - derivatives;
Note 34 - non-derivative financial liabilities.

6. Operating segments

Segment information is presented in the consolidated financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure and is divided into three segments; International Flight Operations, Aviation Investments and Tourism Investments.

Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

International flight operations

The International flight operations are based on the Hub and Spoke concept between Europe and North America via Iceland, leveraging Iceland's geographical position. This successful strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed Icelandair to constantly grow and expand its route network over the past years. In 2017 Icelandair's international route networking connected 18 Cities in North America with 29 Cities in Europe and by that offering connectivity between 450 city pairs within the network. Additionally the route network is an invaluable asset for the Icelandic Tourism offering direct flights to Iceland from around 50 cities. Icelandic people and businesses also utilize the network and make a constant use of the frequent and diverse connections to Europe and North America.

The network is very important for the export and import industries in Iceland, wherein Icelandair Cargo utilizes the network and it's own freighters to offer reliable, frequent and quick transport of cargo.

Aviation investments

There are three subsidiaries within the aviation investment segment. Loftleidir Icelandic, the leasing arm of the group, Air Iceland Connect, the domestic airline and VITA an outgoing tour operator. They have access to the systems, vast experience and knowhow within Icelandair and the International Flight Operations bringing economy of scale to the whole operations.

Tourism investments

There are two subsidiaries within the tourism investments, Icelandair Hotels and Iceland Travel. Icelandair Hotels offers quality hotels both in Reykjavík and around the countryside. Iceland Travel is the biggest incoming tour operator in Iceland. Both companies utilize Icelandair's international route network on a whole year basis.

Geographic information

The geographic information analyses the Group´s revenue as the majority of the Group's clients are outside of Iceland. The vast majority of the Group´s non-current assets are located in Iceland. In presenting the following information the Group's revenues have been based on geographic location of customers:

	2017	2016
Revenues		
North America	39%	37%
Iceland	22%	25%
West Continental Europe	14%	14%
Scandinavia	7%	8%
United Kingdom	7%	7%
Other	11%	10%
Total revenues	100%	100%

6. contd.:

Information on reportable segments

2017	International flight operations	Aviation investment	Tourism investment	Total
External revenue	1.054.361	161.790	203.377	1.419.528
Inter-segment revenue	187.924	8.972	15.308	212.204
Segment revenue	1.242.285	170.762	218.685	1.631.732
Segment EBITDAR*	147.047	39.018	21.849	207.914
Operating lease expenses	(9.414)	(16.031)	(12.244)	(37.689)
Segment EBITDA	137.633	22.987	9.605	170.225
Finance income	18.300	309	619	19.228
Finance costs	(12.041)	(7.295)	(1.487)	(20.823)
Depreciation and amortisation	(104.085)	(10.600)	(5.746)	(120.431)
Share of profit of equity accounted investees	287	0	305	592
Reportable segment profit before tax	40.094	5.401	3.296	48.791
Reportable segment assets	1.840.707	115.968	62.417	2.019.092
Investment in associates	28.368	173	1.088	29.629
Capital expenditure	142.660	15.215	8.256	166.131
Reportable segment liabilities	924.363	92.754	46.328	1.063.445
2016 (restated)				
External revenue	978.003	145.084	162.487	1.285.574
Inter-segment revenue	163.041	10.499	12.854	186.394
Segment revenue	1.141.044	155.583	175.341	1.471.968
Segment EBITDAR*	196.048	36.030	22.882	254.960
Operating lease expenses	(8.602)	(14.459)	(12.054)	(35.115)
Segment EBITDA	187.446	21.571	10.828	219.845
Finance income	5.586	2.108	238	7.932
Finance costs	(2.437)	(1.828)	(2.950)	(7.215)
Depreciation and amortisation	(88.878)	(8.656)	(3.874)	(101.408)
Share of profit of equity accounted investees	785	0	172	957
Reportable segment profit before tax	102.502	13.195	4.414	120.111
Reportable segment assets	1.774.253	105.525	53.590	1.933.368
Investment in associates	22.625	158	714	23.497
Capital expenditure	207.166	27.260	8.971	243.397
Reportable segment liabilities	872.396	77.772	40.424	990.592

*EBITDAR means EBITDA before operating lease expenses.

6. contd.:

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities, and other material items

	2017	2016 (restated)
Revenue		
Total revenue for reportable segments	1.631.732	1.471.968
Elimination of inter-segment revenue	(212.204)	(186.394)
Consolidated revenue	1.419.528	1.285.574
Profit or loss		
Total profit of reportable segments	48.791	120.111
Consolidated continuing profit before tax	48.791	120.111
Assets		
Total assets for reportable segments	2.019.092	1.933.368
Investments in associates	29.629	23.497
Elimination of inter-segment assets	(633.631)	(664.372)
Consolidated total assets	1.415.090	1.292.493
Liabilities		
Total liabilities for reportable segments	1.063.445	990.592
Elimination of inter-segment liabilities	(239.890)	(266.312)
Consolidated total liabilities	823.555	724.280

Other material items

	Reportable segment totals	Adjust-ments	Consoli-dated totals
2017			
Segment EBITDAR	207.914		207.914
Segment EBITDA	170.225		170.225
Finance income	19.228	(5.145)	14.083
Finance costs	(20.823)	5.145	(15.678)
Depreciation and amortisation	(120.431)		(120.431)
Share of profit of associates	592		592
Capital expenditure	166.131		166.131
2016			
Segment EBITDAR	254.960		254.960
Segment EBITDA	219.845		219.845
Finance income	7.932	(1.518)	6.414
Finance costs	(7.215)	1.518	(5.697)
Depreciation and amortisation	(101.408)		(101.408)
Share of profit of associates	957		957
Capital expenditure	243.397		243.397

7. Operating income

Transport revenue is specified as follows:

	2017	2016
Passengers	969.994	895.614
Cargo and mail	63.274	52.209
Total transport revenue	1.033.268	947.823

Other operating revenue is specified as follows:

Sale at airports and hotels	105.763	93.142
Revenue from tourism	140.193	109.980
Aircraft and cargo handling services	21.072	23.597
Maintenance revenue	3.985	2.797
Gain on sale of operating assets	0	782
Other operating revenue	27.546	22.879
Total other operating revenue	298.559	253.177

8. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	306.154	232.204
Contributions to pension funds	43.813	33.885
Other salary-related expenses	32.003	28.912
Other personnel expenses	63.192	59.252
Total salaries and other personnel expenses	445.162	354.253
Average number of full year equivalents	4.263	3.900

Aviation expenses are specified as follows:

Aircraft fuel	235.358	213.418
Aircraft lease	21.757	20.687
Aircraft handling, landing and communication	122.757	108.784
Aircraft maintenance expenses	76.140	77.361
Total aviation expenses	456.012	420.250

Other operating expenses are specified as follows:

Operating cost of real estates and fixtures	30.215	26.298
Communication	25.861	23.135
Advertising	30.033	28.609
Booking fees and commissions	62.581	54.727
Cost of goods sold	29.986	27.888
Customer services	40.377	29.486
Tourism expenses	91.203	70.450
Other operating expenses	37.873	30.633
Total other operating expenses	348.129	291.226

9. Auditor's fee

Auditor's fee are specified as follows:

Audit	538	421
Other services	327	85
Total auditor´s fee	865	506

10. Depreciation and amortisation

The depreciation and amortisation charge in profit or loss is specified as follows:

	2017	2016
Depreciation of operating assets, see note 12	118.059	99.179
Amortisation of intangible assets, see note 16	2.372	2.229
Depreciation and amortisation recognised in profit or loss	120.431	101.408

11. Finance income and finance costs

Finance income and finance costs are specified as follows:

Interest income on bank deposits	3.556	3.157
Other interest income	207	173
Net currency exchange gain	10.320	3.084
Finance income total	14.083	6.414
Interest expense on loans and borrowings	14.971	4.798
Other interest expenses	707	899
Finance costs total	15.678	5.697
Net finance (costs) income	(1.595)	717

12. Operating assets

Operating assets are specified as follows:

Cost	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Balance at 1 January 2016	529.932	40.203	60.330	630.465
Additions	180.018	34.417	16.682	231.117
Additions due to acquisition of subsidiary	0	43.791	0	43.791
Sales and disposals	(56.496)	0	(1.354)	(57.850)
Reclassification of assets held for sale	(9.878)	0	0	(9.878)
Effects of movements in exchange rates	529	10.432	6.673	17.634
Balance at 31 December 2016	644.105	128.843	82.331	855.279
Additions	90.733	32.908	32.653	156.294
Sales and disposals	(68.520)	0	(2.581)	(71.101)
Reclassification	0	479	(479)	0
Effects of movements in exchange rates	549	11.561	5.903	18.013
Balance at 31 December 2017	666.867	173.791	117.827	958.485
Depreciation and impairment losses				
Balance at 1 January 2016	180.203	9.916	21.275	211.394
Depreciation	88.366	2.168	8.645	99.179
Additions due to acquisition of subsidiary	0	387	0	387
Sales and disposals	(56.135)	0	(1.363)	(57.498)
Reclassification of assets held for sale	(5.730)	0	0	(5.730)
Effects of movements in exchange rates	126	1.661	3.145	4.932
Balance at 31 December 2016	206.830	14.132	31.702	252.664
Depreciation	103.297	4.008	10.754	118.059
Sales and disposals	(66.516)	0	(2.677)	(69.193)
Effects of movements in exchange rates	119	1.486	2.645	4.250
Balance at 31 December 2017	243.730	19.626	42.424	305.780
Carrying amounts				
At 1 January 2016	349.729	30.287	39.055	419.071
At 31 December 2016	437.275	114.711	50.629	602.615
At 31 December 2017	423.137	154.165	75.403	652.705
Depreciation ratios	4-20%	2-6%	5-33%	

12. contd.:

Aquisition of operating assets in 2017 amounted to USD 156,3 million. Capitalized overhaul of own engines and aircraft spare parts in the amount of USD 60.8 million is included in the amount.

13. Mortgages and commitments

The Group's operating assets, aircraft and spare parts are mortgaged to secure debt. The remaining balance of the debt amounted to USD 65.8 million at year end 2017 (2016: USD 58.2 million). The Group owns 37 aircraft, of which 34 are unencumbered, including 29 Boeing 757 and 2 Boeing 767.

14. Insurance value of aircraft and flight equipment

The insurance value and carrying amount of the Group's aircraft and related equipment at year-end is specified as follows:

	Insurance value		Carrying amounts	
	2017	**2016**	**2017**	**2016**
Boeing - 31 / 31 aircraft	585.000	638.000	334.689	346.122
Other aircraft	66.466	58.466	43.660	42.353
Flight equipment	67.025	84.862	44.788	48.800
Total aircraft and flight equipment	718.491	781.328	423.137	437.275

15. Insurance value of buildings and other operating assets

The principal buildings owned by the Group are the following:

2017	**Maintenance hangars**	**Hotels**	**Office buildings**	**Other buildings**	**Under construction**	**Total**
Official assessment value	41.153	34.668	28.238	15.557	2.747	122.363
Insurance value	77.077	65.537	50.429	24.225	15.359	232.627
Carrying amounts	32.504	73.555	23.531	13.128	11.447	154.165
Square meters	31.814	18.853	19.743	11.509	5.245	87.164
2016						
Official assessment value	24.860	30.983	23.398	8.259	18.703	106.203
Insurance value	42.173	43.491	39.937	10.408	31.760	167.769
Carrying amounts	4.703	71.819	23.278	3.426	11.485	114.711
Square meters	19.135	17.891	17.850	8.263	15.343	78.482

Official valuation of the Group's leased land for buildings at 31 December 2017 amounted to USD 18.2 million (2016: USD 12.9 million) and is not included in the statement of financial position.

Insurance value of the Group's other operating assets and equipment amounted to USD 121.7 million at year end 2017 (2016: USD 110.0 million). The carrying amount at the same time was USD 75.4 million (2016: USD 50.6 million).

16. Intangible assets and goodwill

Intangible assets and goodwill are specified as follows:

Cost	Goodwill	Trademarks and slots	Other intangibles	Total
Balance at 1 January 2016	147.901	35.956	9.988	193.845
Additions	0	0	1.603	1.603
Sales and disposals	0	0	(6.689)	(6.689)
Effects of movements in exchange rates	2.547	34	115	2.696
Balance at 31 December 2016	150.448	35.990	5.017	191.455
Additions	0	0	5.661	5.661
Sales and disposals	0	0	(2.442)	(2.442)
Effects of movements in exchange rates	2.116	23	451	2.590
Balance at 31 December 2017	152.564	36.013	8.687	197.264
Amortisation and impairment losses				
Balance at 1 January 2016	11.431	2.605	7.115	21.151
Amortisation	0	0	2.229	2.229
Sales and disposals	0	0	(6.689)	(6.689)
Effects of movements in exchange rates	0	0	60	60
Balance at 31 December 2016	11.431	2.605	2.715	16.751
Amortisation	0	0	2.372	2.372
Sales and disposals	0	0	(2.442)	(2.442)
Effects of movements in exchange rates	0	0	161	161
Balance at 31 December 2017	11.431	2.605	2.806	16.842
Carrying amounts				
At 1 January 2016	136.470	33.351	2.873	172.694
At 31 December 2016	139.017	33.385	2.302	174.704
At 31 December 2017	141.133	33.408	5.881	180.422

17. Impairment test

Goodwill and other intangible assets that have indefinite life are tested for impairment at each reporting date. These assets were recognised at fair value on acquistion dates. Goodwill and other intangible assets with indefinite life are specified as follows:

	2017	2016
Goodwill	141.133	139.017
Trademarks and airport slots	33.408	33.385
Total	174.541	172.402

The increase in the carrying amount of goodwill is do to translation differences of subsidiaries with functional currencies other than USD.

For the purpose of impairment testing, goodwill is allocated to the units which represent the level within the Group at which the goodwill is monitored for internal management purposes. The aggregate carrying amounts of goodwill allocated to each cash generated unit (CGU) are as follows:

	Goodwill		Trademarks and slots	
	2017	2016	2017	2016
International Flight Operations	83.280	81.422	23.893	23.870
Aviation Investments	55.728	55.727	9.515	9.515
Tourism Investments	2.125	1.868	0	0
Total goodwill	141.133	139.017	33.408	33.385

17. contd.:

The recoverable amounts of cash-generating units was based on their value in use and were determined by discounting the future cash flows generated from the continuing use of the CGU. Cash flows were projected based on actual operating results and a 5 - 10 year business plan. Cash flows were extrapolated for determining the residual value using a constant nominal growth rate which was consistent with the long-term average growth rate for the industry. Management believes that this forecast period was justified due to the long-term nature of the business.

The values assigned to the key assumptions represent management's assessment of future trends in the airline, transportation and the tourism industry and are based on both external and internal sources (historical data). Value in use was based on the following key assumptions:

	International flight operations	Aviation investments	Tourism investments
2017			
Long term growth rate	2,5 - 4,0%	2,5%	4,0%
Revenue growth:			
Weighted average 2017/2016	10,9%	4,2%	26,8%
2018 - 2022 / 2017 - 2021	9,6%	6,7%	4,0%
Budgeted EBITDA growth	17,0%	-4,5%	48,5%
WACC	9,3 - 14,4%	11,6%	10,2%
Debt leverage	10,2 - 49,8%	49,8%	22,4%
Interest rate for debt	3,9 - 6,4%	7,5%	2,2%
2016			
Long term growth rate	2,5 - 4,0%	2,5%	4,0%
Revenue growth:			
Weighted average 2017/2016	11,4%	-10,4%	25,9%
2018 - 2022 / 2017 - 2021	8,9%	-6,1%	17,3%
Budgeted EBITDA growth	8,4%	-14,2%	28,1%
WACC	9,3 - 14,2%	10,8%	9,1%
Debt leverage	10,2 - 56,9%	56,9%	33,4%
Interest rate for debt	5,0 - 7,5%	7,5%	3,1%

The recoverable amounts of the cash-generating units were estimated to be higher than carrying amounts and no impairment was required. Reasonable possible change in a key assumption would not result in impairment.

18. Investment in associates

The Group has interests in number of associates. The carrying amount and share of profit of the associates is as follows:

	2017		2016	
	Investment	Operating result	Investment	Operating result
Lindarvatn ehf.	18.158	35	16.590	(5)
ITF 1 slhf.	9.805	217	5.649	588
Other investments	1.666	340	1.258	374
Total investments in associates	29.629	592	23.497	957

Lindarvatn ehf. is the owner of a property at Thorvaldsensstræti and other properties located near Austurvollur. In total the properties are 15.000 square meters but the new hotel is expected to be 11.000 square meters.

ITF 1 slhf. is a fund managed by Landsbref. The Fund´s purpose is to invest in Icelandic Companies focusing on entertainment and experience for foreign tourists. Main focus is on whole year projects which contribute to better utilization of the infrastructure in the Icelandic Tourism industry.

19. Deferred cost

Deferred cost consists of prepaid lease on housing which will be expensed over the lease period. Deferred cost is specified as follows:

	2017	2016
Deferred cost	68	120
Current portion, classified as prepayments among receivables	(68)	(57)
Total deferred cost	0	63

Deferred cost will be expensed as follows:

Expensed in 2017	-	57
Expensed in 2018	68	63
Total deferred cost, including current maturities	68	120

20. Non-current receivables and deposits

Non-current receivables consist of notes, deposits for aircraft and engine lease agreements and various other travel related security fees.

Non-current receivables and deposits are specified as follows:

Loans, effective interest rate 6% / 6%	154	208
Security deposits	6.339	5.795
Prepayments on aircraft purchases (see disclosure 37)	143.644	68.419
	150.137	74.422
Current maturities	(53.107)	(324)
Non-current receivables and deposits total	97.030	74.098

Contractual repayments mature as follows:

Maturities in 2017	-	324
Maturities in 2018	53.107	38.098
Maturities in 2019	72.588	25.988
Maturities in 2020	18.405	5.514
Maturities in 2021	2.617	1.527
Maturities in 2022	19	15
Subsequent	3.401	2.956
Total non-current receivables and deposits, including current maturities	150.137	74.422

Non-current receivables and deposits denominated in currencies other than the functional currency comprise USD 1.5 million (2016: USD 1.5 million).

21. Income taxes

Amounts recognised in profit or loss

	2017	2016
Current tax expense		
Current year	8.894	14.024
Reassessment of taxes due to prior years	0	8.099
	8.894	22.123
Deferred tax expense		
Origination and reversal of temporary differences	2.240	8.920
Total tax expense recognised in profit or loss	11.134	31.043

Amounts recognised in other comprehensive income

Effective portion of changes in fair value of cash flow hedge	(631)	10.118
Total tax recognised in other comprehensive income	(631)	10.118

21. contd.:

Reconciliation of effective tax rate

		2017		2016
Profit before tax		48.791		120.111
Income tax according to current tax rate	20,0%	9.758	20,0%	24.022
Non-deductible expenses	1,1%	547	0,5%	547
Reassessment of taxes due to prior years	0,0%	0	6,7%	8.099
Other items	1,7%	829	(1,4%)	(1.625)
Effective tax rate	22,8%	11.134	25,8%	31.043

Recognised deferred tax liabilities

Deferred tax liabilities are specified as follows:

	2017	2016
Deferred tax liabilities 1 January	58.179	35.485
Deferred tax recognised in profit or loss	2.240	8.920
Income tax recognised in other comprehensive income	(631)	10.118
Exchange rate difference	(155)	3.656
Deferred tax liabilities 31 December	59.633	58.179

Deferred tax liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Operating assets	0	0	(52.795)	(51.580)	(52.795)	(51.580)
Intangible assets	0	0	(679)	(955)	(679)	(955)
Derivatives	0	0	(3.468)	(4.103)	(3.468)	(4.103)
Trade receivables	0	0	(2.056)	(898)	(2.056)	(898)
	0	0	(58.998)	(57.536)	(58.998)	(57.536)
Tax loss carry-forwards	1.020	895	0	0	1.020	895
Other items	0	0	(1.655)	(1.538)	(1.655)	(1.538)
Deferred income tax	1.020	895	(60.653)	(59.074)	(59.633)	(58.179)

Movements in deferred tax balance during the year

2017	1 January	Recognised in profit or loss	Exchange rate difference	Recognised in other comprehensive income and equity	31 December
Operating assets	(51.580)	(1.543)	328	0	(52.795)
Intangible assets	(955)	95	181	0	(679)
Derivatives	(4.103)	229	(225)	631	(3.468)
Trade receivables	(898)	(1.149)	(9)	0	(2.056)
Tax loss carry-forwards	895	97	28	0	1.020
Other items	(1.538)	31	(148)	0	(1.655)
	(58.179)	(2.240)	155	631	(59.633)
2016					
Operating assets	(40.170)	(8.302)	(3.108)	0	(51.580)
Intangible assets	(812)	(155)	12	0	(955)
Derivatives	6.015	0	0	(10.118)	(4.103)
Trade receivables	132	(1.020)	(10)	0	(898)
Tax loss carry-forwards	611	266	18	0	895
Other items	(1.261)	291	(568)	0	(1.538)
	(35.485)	(8.920)	(3.656)	(10.118)	(58.179)

22. Inventories

Inventories are specified as follows:

	2017	2016
Spare parts	18.767	18.574
Other inventories	8.034	5.389
Inventories total	26.801	23.963

23. Trade and other receivables

Trade and other receivables are specified as follows:

Trade receivables	100.972	84.065
Prepayments	6.388	9.096
Restricted cash	2.132	3.423
Current maturities of long term-receivables	53.107	324
Other receivables	14.676	21.812
Trade and other receivables total	177.275	118.720

At year end trade receivables are presented net of an allowance for doubtful debts of USD 4.8 million (2016: USD 5.2 million).

Prepaid expenses which relate to subsequent periods amounted to USD 6.4 million (2016: USD 9.1 million) at year end. The prepayments consist mainly of prepaid contractual obligations, insurance premiums, software licenses and leases.

Restricted cash is held in bank accounts pledged against credit cards, derivatives and tourism guarantees.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 33.

24. Assets classified as held for sale

Assets classified as held for sale at year end 2016 consisted of four Fokker 50 aircraft which Air Iceland took out of service and sold in 2017.

In 2017 an aircraft was received as a partial payment of a receivable that was in default. The aircraft will not be used by the Group and a LOI has been signed for the sale of the aircraft.

25. Short term investments

Short term investments at year end consist of securities listed on stock exchanges in Iceland and fixed deposits. They are recognized at fair value at year end, based on market value.

26. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	2017	2016
Securities	0	71.772
Bank deposits	220.312	154.785
Cash on hand	879	332
Cash and cash equivalents total	221.191	226.889

27. Equity

Share capital

The Company's share capital amounts to ISK 5.0 billion according to its Articles of Association. Shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share of one ISK.

The Company held treasury shares in the amount of ISK 139.5 million at year end 2017 (2016: ISK 25.0 million). During the year the Company purchased 114 million shares for USD 15.2 million according to a share purchase program authorised at the Company's Annual General Meeting.

Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to the Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve. The balance of the share premium account can be used to offset losses not covered by other reserves or to offset stock splits.

Reserves

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The translation reserve comprises all currency differences arising from the translation of the financial statements of subsidiaries having functional currencies other than the Group.

According to the Icelandic Financial Statement Act, companies must retain in a seperate equity account recognized share in profit of subsidiaries and associates in excess of dividend received or declared.

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Reserve for profit share of affiliates	Total reserves
Balance 1 January 2016	(24.059)	25.459	0	1.400
Share in profit of subsidiaries and associates in excess of dividend received			63.902	63.902
Currency translation differences		9.065		9.065
Effective portion of changes in fair value of cash flow hedges, net of tax	40.482			40.482
Balance at 31 December 2016	16.423	34.524	63.902	114.849
Share in profit of subsidiaries and associates in excess of dividend received			7.351	7.351
Currency translation differences		7.716		7.716
Effective portion of changes in fair value of cash flow hedges, net of tax	(2.509)			(2.509)
Balance at 31 December 2017	13.914	42.240	71.253	127.407

Dividend

Dividend amounting to USD 5.0 million was paid to shareholders in the year 2017 (2016: USD 27.0 million).

The Board of Directors proposes a dividend payment to shareholders in 2018 of ISK 750 million, equal to USD 7.2 million, which represents 19% of profit for the year 2017.

28. Earnings per share

Basic earnings per share is calculated by dividing net profit attributable to equity holders of the Parent by the weighted average number of outstanding shares during the year. The calculation of diluted earnings per share is identical to basic earnings per share as no convertible notes or stock options have been issued.

	2017	2016
Basic earnings per share:		
Profit for the year attributable to equity holders of the parent company	37.438	88.820
Weighted average number of shares for the year	4.887.187	4.974.540
Basic earnings per share in US cent per share	0,77	1,79
Diluted earnings per share in US cent per share	0,77	1,79

29. Loans and borrowings

This note provides information on contractual terms of the Group´s interest-bearing loans and borrowings, which are measured at amortised cost, and changes during the year. For more information on the Group´s exposure to interest rate, foreign currency and liquidity risk, see note 33.

	Current interest bearing debt	Non-current interest bearing debt	Total
Total interest bearing debt 1 January 2017	35.385	206.997	242.382
Proceeds from loans and borrowings	3.448	42.436	45.884
Transaction cost of long-term loans and borrowings	0	(500)	(500)
Repayment of borrowings	0	(10.556)	(10.556)
Cash flows related to financing activities	3.448	31.380	34.828
Proceeds from loans and borrowings	0	7.081	7.081
Refinancing	(38.710)	38.710	0
Financing activities without cash flows	(38.710)	45.791	7.081
Indexation	0	159	159
Currency exchange difference	3.325	1.398	4.723
Expensed borrowing cost recognised in effective interests	0	368	368
Other liability related changes	3.325	1.925	5.250
Total interest bearing debt 31 December 2017	3.448	286.093	289.541

Loans and borrowings are specified as follows:	2017	2016
Secured bank loans	65.786	58.195
Unsecured bonds	223.755	184.187
Total loans and borrowings	289.541	242.382
Current maturities	(9.287)	(45.660)
Total non-current loans and borrowings	280.254	196.722

Current loans and borrowings are specified as follows:		
Current maturities of non-current liabilities	9.287	45.660
Total loans and borrowings	289.541	242.382

29. contd.:

Terms and debt repayment schedule:

	Currency	Nominal interest rates year end 2017	Year of maturity	Total remaining balance 2017	2016
Secured bank loans	USD	4,9%	2018-2022	12.202	21.082
Secured bank loans	EUR	2,7%	2026	7.285	0
Secured bank loans	ISK	6,4%	2019-2036	41.146	0
Secured bank loans, indexed	ISK	4,3%	2025	1.706	1.728
Unsecured bond issue	USD	4,9%	2020-2021	212.360	172.527
Unsecured bond issue, indexed	ISK	5,7%	2023	11.394	11.660
Secured bank loans - short term	USD	5,1%	2018	3.448	0
Secured bank loans - short term	ISK			0	35.385
Total interest bearing liabilities				289.541	242.382

Repayments of loans and borrowings are specified as follows:

Repayments in 2017	-	45.660
Repayments in 2018	9.287	5.585
Repayments in 2019	41.723	2.390
Repayments in 2020	27.015	26.175
Repayments in 2021	193.534	152.661
Repayments in 2022	7.573	2.817
Subsequent repayments	10.409	7.094
Total loans and borrowings	289.541	242.382

30. Non-current payables

Non-current payables correspond to accrued engine overhaul cost of leased aircraft and security deposits from lease contracts to be realized after 2018. Non-current obligations are specified as follows:

	2017	2016
Non-current payables	24.289	16.573
Current portion, classified in trade and other payables	(7.050)	(3.284)
Total non-current payables	17.239	13.289

Non-current payables are scheduled to be repaid as follows:

Repayments in 2017	-	3.284
Repayments in 2018	7.050	5.852
Repayments in 2019	2.728	3.487
Repayments in 2020	10.015	976
Repayments in 2021	4.353	2.974
Repayments in 2022	143	0
Total non-current payables, including current maturities	24.289	16.573

31. Trade and other payables

Trade and other payables are specified as follows:

Trade payables	58.391	55.977
Current portion of engine overhauls and security deposits from lease contracts	7.050	3.284
Income tax payable	8.894	14.048
Other payables	157.853	136.798
Total trade and other payables	232.188	210.107

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 33.

32. Deferred income

Sold unused tickets, fair value of unutilized frequent flyer points and other prepayments are presented as deferred income in the statement of financial position.

Deferred income is specified as follows:	2017	2016
Sold unused tickets	186.264	164.580
Frequent flyer points	19.124	18.800
Other prepayments	18.183	16.507
Total deferred income	223.571	199.887

The amount allocated to frequent flyer points is estimated by reference to the fair value of the discounted services for which they could be redeemed, since the fair value of the points themselves is not directly observable. The fair value of the discounted services for which the points, granted through a customer loyalty programme, can be redeemed takes into account the expected redemption rate and the timing of such expected redemptions. That amount is recognised as deferred income.

33. Financial risk management

Overview

The Group has exposure to the following financial risks:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the risks above, the Group's objectives, policies, and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Company's Risk Management Commitee is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

33. contd.:

Exposure to credit risk
The carrying amounts of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

		Carrying amount	
	Note	**2017**	**2016**
Non-current receivables and deposits	20	97.030	74.098
Trade and other receivables	23	170.887	109.624
Short term investments	25	4.087	23.236
Cash and cash equivalents	26	221.191	226.889
		493.195	433.847

Trade and other receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Credit risk is linked to trade receivables, investment in debt securities and agreements with financial institutions related to hedging. The relative spread of trade receivables across counterparties is also crucial for credit risk exposure. The risk involved is directly related to the fulfilment of outstanding obligations of the Group's counterparties. The Group is aware of potential losses related to credit risk exposure and chooses its counterparties subject to business experience.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

At year end 2017, the maximum exposure to credit risk for trade and other receivables by type of financial instrument was as follows:

	2017	**2016**
Credit cards	55.219	51.609
Trade receivables	45.753	32.456
	100.972	84.065
Prepayments on aircraft purchases	52.521	0
Other receivables	23.782	34.655
	177.275	118.720

Impairment losses
The aging of trade receivables at the reporting date was as follows:

	Gross 2017	**Allowance for Impairment 2017**	**Gross 2016**	**Allowance for Impairment 2016**
Not past due	83.848	(1.065)	65.172	(510)
Past due 1-30 days	10.035	(93)	12.009	(52)
Past due 31-120 days	7.073	(1.084)	6.540	(899)
Past due 121-365 days	2.284	(696)	1.248	(450)
More than one year	2.565	(1.895)	4.247	(3.240)
Total	105.805	(4.833)	89.216	(5.151)

33. contd.:

Changes in the allowance for impairment in respect of trade receivables during the year were as follows:

	2017	2016
Balance at 1 January	5.151	6.357
Impairment loss allowance, increase	2.074	811
Amounts written off	(2.424)	(2.048)
Exchange rate difference	32	31
Balance at 31 December	4.833	5.151

Based on historical default rates, the management believes that minimal impairment allowance is necessary in respect of trade receivables not past due or past due by 30 days; a significant part of the balance relates to customers that have a good track record with the Group.

The allowance account in respect of trade receivables is used to record impairment losses. If the Group believes that no recovery is possible the financial asset is written off directly.

Guarantees
The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Exposure to liquidity risk
The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount of three months operating cost on average where 30% can be in the form of unused lines of credit.

The Company's management monitors its cash flow requirements by using rolling forecast and the liquidity management is based on projected cash flow in different currencies.

Following are the contractual maturities of financial liabilities at the reporting date, including estimated interest payments:

31 December 2017	Carrying amount	Contractual cash flows	Within 12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Unsecured bank loans	223.755	259.684	14.898	35.124	209.662	0
Secured loans	65.786	71.120	11.054	41.035	10.823	8.208
Payables & prepayments	249.427	249.427	232.188	2.728	14.511	0
	538.968	580.231	258.140	78.887	234.996	8.208
Derivative financial liabilities						
Commodity derivatives	17.969	18.163	17.767	396	0	0
Forward exchange contracts	(629)	1.964	1.964	0	0	0
- Outflow	(134.564)	(134.775)	(134.775)	0	0	0
- Inflow	133.935	136.739	136.739	0	0	0
Interest rate swaps	365	390	49	(3)	344	0
	17.705	20.517	19.780	393	344	0

33. contd.:

31 December 2016	Carrying amount	Contractual cash flows	Within 12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Unsecured bond issue	184.187	232.639	13.065	10.415	205.026	4.133
Secured loans	58.195	61.395	46.015	4.701	4.872	5.807
Payables & prepayments	223.396	223.396	210.107	5.852	7.437	0
	465.778	517.430	269.187	20.968	217.335	9.940
Derivative financial liabilities						
Commodity derivatives	11.788	12.171	12.259	(88)	0	0
Forward exchange contracts	8.415	12.338	12.338	0	0	0
- Outflow	(160.955)	(161.325)	(161.325)	0	0	0
- Inflow	169.370	173.663	173.663	0	0	0
Interest rate swaps	(79)	(64)	(170)	(192)	298	0
	20.124	24.445	24.427	(280)	298	0

Unused unsecured credit lines at year end 2017 amounted to USD 74.8 million (2016: USD 74.4 million).

In addition to the liquidity exposure presented in the balance sheet the Group is exposed to off balance sheet liabilities. Further information on these liabilities is provided in note 35 and 37.

Market risk

Market risk emerges from changes in market prices, such as foreign exchange rates, interest rates, carbon prices and fuel prices, as those changes will affect the Group's cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group uses spot and forward trading, swaps and options in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. The Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Fuel risk

The Group is exposed to fuel price risk. The Group´s fuel price risk managment strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in the event of a substantial fall in the price of fuel. The current Group strategy as reflected in the policy is to hedge between 40% and 60% of fuel consumption 12 months forward and upto 20% from 13-18 months forward. In implementing the strategy, the hedge programme allows for a number of derivatives with approved counterparties and within approved limits. At year end the 54% of an estimated 12 months exposure of 429.000 tonnes was hedged with swaps.

Sensitivity analysis

The following table demonstrates the sensitivity of the financial instruments in place at year end to a reasonably possible change in fuel prices, with all other variables held constant, on profit before tax and equtiy:

	Effect on equity		Effect on profit before tax	
	2017	2016	2017	2016
Increase in fuel prices by 10%	16.122	11.963	0	0
Decrease in fuel prices by 10%	(16.122)	(11.963)	0	0

33. contd.:

Currency risk

The Group is exposed to currency risk on sales, purchases, trade and other receivables, short term investments, cash and cash equivalents, secured bank loans and trade payables that are denominated in a currency other than the respective functional currencies of Group entities.

The Group seeks to reduce its foreign exchange exposure arising from currency mismatch in the cashflow by netting receipts and payments in each individual currency and by internal trading within the Group. The shortfall of ISK is financed by a surplus of European currencies, most importantly EUR and Scandinavian currencies but also GBP and CAD. The exposure is hedged 50-80% 9-12 months forward with spot and forward contracts.

Exposure to currency risk

The Group's exposure to currency risk in it's major currencies is as follows:

2017	**ISK**	**EUR**	**GBP**	**DKK**	**SEK**	**CAD**
Receivables / payables, net	49.103	(4.951)	(4.378)	(786)	183	1.869
Cash and cash equivalents	56.317	35.310	10.201	1.369	4.492	12.054
Secured bank loans	(11.394)	0	0	0	0	0
Forward exchange contracts	122.075	(16.866)	(27.085)	(16.116)	(23.198)	(38.245)
Net statement of financial position exposure	216.101	13.493	(21.262)	(15.533)	(18.523)	(24.322)
Next 12 months forecast sales	307.536	283.863	75.181	24.652	25.606	65.778
Next 12 months forecast purchases	(632.561)	(214.534)	(25.905)	(9.381)	(3.028)	(13.509)
Capex thereof	(46.234)					
Net 12 months currency exposure	(108.924)	82.822	28.014	(262)	4.055	27.947

2016	**ISK**	**EUR**	**GBP**	**DKK**	**SEK**	**CAD**
Receivables / payables, net	(42.193)	(24.156)	(12.718)	(3.468)	(3.203)	(11.252)
Cash and cash equivalents	23.325	20.534	7.530	3.186	3.662	5.468
Secured bank loans	(11.660)	0	0	0	0	0
Forward exchange contracts	118.302	(27.954)	(19.780)	(17.024)	(22.239)	(26.104)
Net statement of financial position exposure	87.774	(31.576)	(24.968)	(17.306)	(21.780)	(31.888)
Next 12 months forecast sales	286.721	310.523	71.745	26.879	30.077	84.236
Next 12 months forecast purchases	(551.029)	(256.163)	(26.571)	(11.038)	(3.405)	(15.931)
Capex thereof	(20.760)					
Net 12 months currency exposure	(176.534)	22.784	20.206	(1.465)	4.892	36.417

33. contd.:

The following significant exchange rates of USD applied during the year:

	Average rate		Year-end spot rate	
	2017	**2016**	**2017**	**2016**
ISK	0,0093	0,0083	0,0096	0,0088
EUR	1,13	1,11	1,20	1,05
GBP	1,29	1,36	1,35	1,24
CAD	0,77	0,76	0,80	0,75
DKK	0,15	0,15	0,16	0,14
SEK	0,12	0,12	0,12	0,11

Sensitivity analysis

A 10% strengthening of the USD against the following currencies at 31 December would have increased (decreased) post-tax equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Directly in Equity	Profit or loss	Total effect on Equity
2017			
ISK	(9.766)	(7.522)	(17.288)
EUR	1.349	(2.429)	(1.079)
GBP	2.167	(466)	1.701
DKK	1.289	(47)	1.243
SEK	1.856	(374)	1.482
CAD	3.060	(1.114)	1.946
2016			
ISK	(9.464)	2.442	(7.022)
EUR	2.236	290	2.526
GBP	1.582	415	1.997
DKK	1.362	23	1.384
SEK	1.779	(37)	1.742
CAD	2.088	463	2.551

A 10% weakening of the USD against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The fair value of a fixed rate instrument will fluctuate because of changes in market interest rates. The cash flow of variable rate instruments will also fluctuate with changes in market interest rates. The Group follows a policy of hedging 40-80% of the net interest rate cash flow exposure of long-term financing with up to a 5-year horizon. This is achieved by using fixed rate loans and fixed for floating swap contracts.

At the reporting date the interest rate profile of the Group´s interest bearing financial instruments was as follows:

	Carrying amount	
Fixed rate instruments	**2017**	**2016**
Financial assets	4.087	3.230
Commodity derivatives and forward exchange contracts	17.705	20.124
Interest rate swaps	(50.000)	(30.000)
	(28.208)	(6.646)
Variable rate instruments		
Financial assets	220.312	246.563
Financial liabilities	(211.709)	(165.209)
	8.603	81.354

33. contd.:

Fair value sensitivity analysis for fixed rate instruments

The Group designates derivatives for the purpose of fuel, fx and interest rate hedging as hedging instruments under a fair value hedge accounting model. Interest rate changes affect the fixed rate instruments carrying amount through equity.

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts stated below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

31 December 2017	**100 bp increase**	**100 bp decrease**
Fixed rate instruments	(80)	83
Commodity derivatives and forward exchange contracts	(70)	71
Interest rate swaps	(1.541)	1.499
Fair value sensitivity (net)	(1.692)	1.653
31 December 2016		
Fixed rate instruments	(63)	66
Commodity derivatives and forward exchange contracts	(81)	82
Interest rate swaps	(1.174)	899
Fair value sensitivity (net)	(1.318)	1.047

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts stated below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

31 December 2017	**100 bp increase**	**100 bp decrease**
Variable rate instruments	69	(69)
Cash flow sensitivity (net)	69	(69)
31 December 2016		
Variable rate instruments	651	(651)
Cash flow sensitivity (net)	651	(651)

Capital management

The Board‘s policy is to maintain a strong capital base for the benefit of investor, creditor and market confidence and to sustain future development of the business. The policy is to hold in cash and other highly liquid assets the equivilant of three months operating cost of which 30% of the benchmark can be in the form of unused lines of credit. Furthermore according to the policy the equity ratio shall not be less than 35%.

Dividend

The Board of Directors has approved to the following dividend policy: “The Company's goal is to declare 20-40% of annual net profit as dividend. Final decision on dividend payments will be based on the financial position of the Company, operating capital requirements and market conditions.”

34. Financial instruments and fair values

The table shows the carrying amounts and fair values of financial assets and liabilities. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount 2017	Fair value 2017	Carrying amount 2016	Fair value 2016
Derivatives used for hedging	17.067	17.067	20.124	20.124
Short term investments	4.087	4.087	23.236	23.236
Unsecured bond issue	(223.755)	(246.238)	(184.187)	(189.963)
Secured loans	(65.786)	(68.504)	(58.195)	(58.138)
Total	(268.387)	(293.588)	(199.022)	(204.741)

Fair value hierarchy:

The table below analyses the fair value of assets and liabilities and their levels in the fair value hierarchy:

31 December 2017	Level 1	Level 2	Level 3	Total
Derivatives used for hedging		17.067		17.067
Short term investments	4.087			4.087
Unsecured bond issue			(246.238)	(246.238)
Secured loans			(68.504)	(68.504)
Total	4.087	17.067	(314.742)	(293.588)
31 December 2016				
Derivatives used for hedging		20.124		20.124
Short term investments	23.236			23.236
Unsecured bond issue			(189.963)	(189.963)
Secured loans			(58.138)	(58.138)
Total	23.236	20.124	(248.101)	(204.741)

The basis for determining the levels is disclosed in note 5.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate based on government bonds.

The fair value of interest rate swaps is based on broker quotes. If not available the fair value is based on the discounted cashflow difference of the contratual fixed interest payment and the floating interest receivable.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entities and counterparties when appropriate.

35. Off-balance sheet items

Leases as lessee

As a lessee the Group has in place operating leases for storage facilities, hotels, equipment, the longest until the year 2041. The Group has also in place operating leases for aircraft, the longest until the year 2027. The aircraft lease payments consist of regular lease payments excluding maintenance reserves. During the year USD 37.7 million was recognised as an expense in profit or loss in respect of operating leases (2016: USD 35.1 million). At year end 2017 the leases are payable as follows in nominal amounts for each year:

2017	Real estate	Aircraft	Other	Total
In the year 2018	18.363	19.745	10.371	48.479
In the year 2019	23.075	24.885	3.766	51.726
In the year 2020	22.886	25.568	3.951	52.405
In the year 2021	22.192	20.412	2.897	45.501
In the year 2022	21.833	18.882	3.046	43.761
Subsequent	249.072	80.851	40.419	370.342
Total	357.421	190.343	64.450	612.214
2016				
In the year 2017	13.281	16.761	10.067	40.109
In the year 2018	16.794	15.225	3.049	35.068
In the year 2019	19.922	9.024	3.333	32.279
In the year 2020	19.694	7.624	3.003	30.321
In the year 2021	18.961	2.994	2.440	24.395
Subsequent	231.271	1.830	33.165	266.266
Total	319.923	53.458	55.057	428.438

36. Leases as lessor

As a lessor the Company leases aircraft on wet, dry and various other terms, both on short and long term leases. Lease income for the year amounted to USD 87.7 million (2016; USD 84.6 million). Contracted leases at year end were as follows:

	2017	2016
In the year 2017	-	72.138
In the year 2018	76.750	77.036
In the year 2019	33.463	33.231
In the year 2020	29.119	29.146
In the year 2021	10.911	11.142
In the year 2022	502	0
Total	150.745	222.693

37. Capital commitments

In 2013 Icelandair Group and Boeing signed an agreement for the purchase of sixteen 737 MAX8 and 737 MAX9 aircraft with an option to purchase additional eight aircraft. The delivery of the first aircraft is scheduled in first half of 2018. The commitment for all sixteen aircraft was valued at USD 1.6 billion at Boeing list prices when the agreement was finalized. The Company received acceptable discounts which, due to confidentiality agreements, cannot be disclosed. Prepayments according to the agreement will be made over the construction period.

An agreement for the sale and leaseback of four Boeing 737 MAX aircraft was signed in May 2017. One aircraft will be delivered in the first quarter of 2018 and three in the first quarter of 2019. Two of the aircraft are Boeing 737 MAX8 and two are Boeing 737 MAX9. The lease obligation from the contract is included in note 35.

The delivery plan of the aricraft is as follows:

	2018	2019	2020	2021
Boeing 737 MAX8	3	3	2	1
Boeing 737 MAX9		3	3	1
Total	3	6	5	2

38. Related parties

Identity of related parties

The Group has a related party relationship with its shareholders with significant influence, subsidiaries, associates, and with its directors and executive officers.

Transactions with management and key personnel

Salaries and benefits of management for their service to Group companies and the number of shares in the Company held by management are specified below. Salaries and benefits are presented in ISK, rounded to nearest thousand.

Board of Directors:	2017 Salaries and benefits ISK	Number of shares held at year-end 2017 in thousands	2016 Salaries and benefits ISK	Number of shares held at year-end 2016 in thousands
Úlfar Steindórsson, Chairman of the Board	8.508		6.625	
Ásthildur Margrét Otharsdóttir	4.920		4.850	
Georg Lúðvíksson	4.074			
Katrín Olga Jóhannesdóttir	6.600	13	6.500	13
Ómar Benediktsson	5.564	102.361		
Sigurður Helgason, former Chairman of the Board	1.528	14.000	8.750	14.000
Magnús Magnússon, former Board member	619		4.080	
Key employees:				
Björgólfur Jóhannsson CEO of Icelandair Group hf.	55.459	1.900	54.002	1.400
Eight MD's of Group companies and CFO of Group	296.296	1.861	297.950	1.111

Shares held by management and directors includes shares held by companies controlled by them.

Transaction with associates

During the year 2017 the Group purchased and sold to associates for immaterial amounts in 2017 and 2016.

Transaction with shareholders

There are no shareholders with significant influence at year end 2017. Companies which members of the Board and key employees control have been identified as being twenty five. These companies have been identified as related. Transactions with them consist of purchase and sale of services in the ordinary course of business on an arm's length basis which were immaterial in amounts both in 2017 and 2016.

39. Litigations and claims

The Icelandic Competition Authority (ICA) is investigating Icelandair's alleged predatory pricing in 2012-13 which could be considered as a breach of Article 11 of the Icelandic Competition Act. If the investigation will conclude that Icelandair had a dominant position in the market, and abused its position by predatory pricing, the ICA could lay an administrative fine on Icelandair for the alleged breach of the Competition Act. The ICA's decision may be appealed to the Icelandic Competition Appeals Committee. The Company's management is of the opinion that Icelandair's pricing in 2012-13 was fully compliant with the Competition Act.

40. Group entities

The Company held twelve subsidiaries at year end 2017 which are all included in the consolidated financial statements. They are as follows:

	Ownership interest	
	2017	**2016**
International Flight Operations:		
A320 ehf.	100%	100%
Fjárvakur - Icelandair Shared Services ehf.	100%	100%
IceCap Ltd., Guernsey	100%	100%
Iceeignir ehf.	100%	100%
Icelandair ehf.	100%	100%
Icelandair Cargo ehf.	100%	100%
IGS ehf.	100%	100%
Aviation investments:		
Air Iceland ehf.	100%	100%
Feria ehf.	100%	100%
Loftleiðir - Icelandic ehf.	100%	100%
Tourism investments:		
Iceland Travel ehf.	100%	100%
Icelandair Hotels ehf.	100%	100%

The subsidiaries further own thirteen subsidiaries that are also included in the consolidated financial statements. Three of those have non-controlling shareholders.

41. Ratios

The Group's primary ratios at year end are specified as follows:

Current ratio	0,98	0,92
Equity ratio	0,42	0,44
Intrinsic value of share capital	14,95	13,99

42. Significant accounting policies

The accounting policies set out in this note have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

a. Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated statements from the date on which control commences until the date on which control ceases. When the Group looses control over subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other compnonents of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(ii) Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of associates, until the date on which significant influence ceases.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Currency exchange

(i) Currency transactions

Transactions in currencies other than functional currencies (foreign currencies) are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective (see (iii) below), or qualifying cash flow hedges to the extent the hedge is effective, which are recognised in other comprehensive income.

(ii) Subsidiaries with other functional currencies

Assets and liabilities of foreign operations and subsidiaries with functional currencies other than USD, including goodwill and fair value adjustments arising on acquisitions, are translated to USD at exchange rates at the reporting date. Income and expenses are translated to USD at exchange rates at the dates of the transactions. Currency differences arising on translation are recognised in other comprehensive income. When an operation is disposed of, in part or in full, the relevant amount in the currency translation reserve within equity is transferred to profit or loss as part of the profit or loss on disposal.

Currency differences are recognised in other comprehensive income, and presented in the translation reserve in equity. However, if the operation is not a wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to the non-controlling interests.

42 contd.:

c. Financial instruments

(i) **Non-derivative financial assets**

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets, including assets designated at fair value through profit or loss, are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein which takes into account any dividend income, are recognised in profit or loss.

Financial assets classified as held-for-trading comprise marketable securities actively managed by the Group's treasury department to address short-term liquidity needs.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise restricted cash and cash equivalents and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits and marketable securities with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

42. contd.:

(ii) **Non-derivative financial liabilities**

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities including liabilities designated at fair value through profit or loss are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings and trade and other payables.

(iii) **Share capital**

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Repurchase and reissue of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

(iv) **Derivative financial instruments, including hedge accounting**

The Group holds derivative financial instruments to hedge its foreign currency, fuel price and interest rate risk exposures (see note 33). Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below. The Group holds no trading derivatives.

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that ultimately could affect reported profit or loss.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period during which the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified in profit or loss.

42. contd.:

Other non-trading derivatives
When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

d. Operating assets

(i) Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of operating assets have different useful lives, they are accounted for as separate items (major components) of operating assets.

Any gain and loss on disposal of an item of operating assets (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Aircraft and flight equipment

Aircraft and flight equipment, e.g. aircraft engines and aircraft spare parts, are measured at cost less accumulated depreciation and accumulated impairment losses. When an aircraft is acquired the purchase price is divided between the aircraft itself and engines. Aircraft is depreciated over the estimated useful life of the relevant aircraft until a residual value is met. Engines are depreciated according to actual usage based on cycles flown. When an engine is overhauled the cost of the overhaul is capitalised and the remainder of the cost of the previous overhaul that has not already been depreciated, if any, is expensed in full.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

(iv) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Items of operating assets are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component unless other systematic method is considered appropriate. Leased assets are depreciated over the shorter of the lease term or their useful lives. The estimated useful lives for the current and comparative periods are as follows:

	Useful life
Aircraft and flight equipment	3-17 years
Engines	Cycles flown
Buildings	17-50 years
Other property and equipment	3-20 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

42. contd.:

e. Intangible assets and goodwill

(i) **Goodwill and other intangible assets with indefinite useful lives**

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Goodwill, trademarks and airport slots with indefinite useful lives are stated at cost less accumulated impairment losses.

(ii) **Other intangible assets**

Other intangible assets acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative years are as follows:

	Useful life
Software	3 years
Other intangible assets	6-10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iii) **Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

f. Leased assets

All leases are operating leases and the leased assets are not recognised in the Group's statement of financial position.

g. Inventories

Goods for resale and supplies are measured at the lower of cost and net realisable value. The cost of inventories is based on first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

42. contd.:

h. Impairment

(i) **Non-derivative financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that loss event had an impact on the estimated future cash flows of that asset which can be estimated reliably.

Objective evidence that financial assets are impaired includes:
Default or delinquency by a debtor;
Restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
Indications that a debtor or issuer will enter bankruptcy;
Adverse changes in the payment status of borrowers or issuers;
The disappearance of an active market for a security because of financial difficulties; or
Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) **Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangibles assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respet of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group of units) on a pro rata basis.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

42. contd.:

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

j. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Overhaul commitments relating to aircraft under operating leases

With respect to the Group´s operating lease agreements, where the Group has a commitment to maintain the aircraft, provision is made during the lease term for the obligation based on estimated future cost of major airframe and certain engine maintenance checks by making appropriate charges to the profit or loss calculated by reference to the number of hours or cycles operated.

Provisions are entered into the statement of financial position among non-current and current payables, as applicable.

i. Deferred income

Sold unused tickets, fair value of unutilized frequent flyer points and other prepayments are presented as deferred income in the statement of financial position.

Icelandair's frequent flyer program

Frequent flyer points earned or sold are accounted for as a liability on a fair value basis of the services that can be purchased for the points. The points are recognized as revenue when they are utilized or when they expire.

k. Operating income

(i) **Transport revenue**

Passenger ticket sales are recognised as revenue when transportation has been provided. Sold refundable documents not used within twelve months from the month of sale are recognised as revenue. Non-refundable documents are recognized as revenue two months after expected transport if not used. Revenue from mail and cargo transportation is recognised when transportation has been provided.

(ii) **Customer loyalty programmes**

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits (frequent flyer points) and other components of the sale. Awards can also be generated through transportation services supplied by the Group. Through transportation services the amount allocated to the points is estimated by reference to the fair value of the services for which they could be redeemed, since the fair value of the points themselves is not directly observable. The fair value of the services is calculated taking into account the expected redemption rate and timing of the redemptions. The amounts are deferred and revenue is recognised only when the points are redeemed and the Group has fulfilled its obligations to provide the services. The amount of revenue recognised in those circumstances is based on the number of points that have been redeemed in exchange for services, relative to the total number of points that is expected to be redeemed.

(iii) **Aircraft and aircrew lease**

Revenue from aircraft and aircrew lease is recognised in profit or loss when the service has been provided.

42. contd.:

(iv) **Other operating revenue**

Revenue includes revenue from tourism, sales at airports and hotels, maintenance service sold and other revenue. Revenue is recognised in profit or loss when the service has been provided or sale completed by delivery of products.

Gain on sale of operating assets is recognised in profit or loss when the risks and rewards of ownership are transferred to the buyer.

l. Employee benefits

(i) **Short-term employee benefits**

Short-term employee benefits are expensed when the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) **Defined contribution plans**

Obligations for contributions to defined contribution plans are epensed when the related service is provided.

m. Lease payments

Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

n. Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group´s right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of discounts on provisions, foreign currency losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether currency movements are in a net gain or net loss position.

o. Income tax

Income tax comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is expected tax payable on taxable income for the year using tax rates enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that do not affect accounting, or taxable profit or differences relating to investment in subsidiaries.

42. contd.:

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date.

p. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for treasury shares held, for the effects of all dilutive potential ordinary shares.

q. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The major revenue-earning assets of the Group is the aircraft fleet, the majority of which is registered in Iceland. Since the Group's aircraft fleet is employed flexibly across its route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

Inter-segment pricing is determined on an arm's length basis.

Segment results, reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, and income tax assets and liabilities.

43. Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following standards are expected to have a impact on the Group's financial statements in the period of initial application.

a. Estimated impact of adoption of IFRS 15

The Group is required to adopt IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The Group has assessed the estimated impact that the initial application of IFRS 15 will have on its consolidated financial statements. The estimated impact of the adoption of IFRS 15 on the Group's equity as at 1 January 2018 is based on assessments undertaken to date and is summarised below.

The total estimated adjustment (net of tax) to the opening balance of the Group's equity at 1 January 2017 is USD 5.1 million. The principal components of the estimated adjustment are as follows:

– A decrease of USD 0.9 million due to later recognition of revenue from service fees (see b(i)).

– An increase of USD 7.4 million due to later recognition of costs incurred in fulfilling a contract with a customer. The Group recognises an asset from the costs incurred until the services is provided (see b(iv)).

– A decrease of USD 1.3 million due to income tax effect of above changes.

Estimated impact of adoption of IFRS 15:

	2017	2016
Retained earnings as reported at 31.12.	280.328	257.696
Transport revenue adjustment on prior periods	(2.490)	(949)
Other operating expenses adjustment on prior periods	8.752	7.360
Income tax adjument on prior periods	(1.252)	(1.282)
Retained earnings restated at 31.12.	285.338	262.825

It is expected that these changes will lower the seasonal fluctuations between quarters. The estimated adjustment on each quarter in 2017 due to retrospective adoption of IFRS 15 is as follows:

	Q1	Q2	Q3	Q4	Total
Transport revenue	(297)	(1.587)	1.002	(659)	(1.541)
Other operating expenses	6.561	(95)	(6.195)	1.121	1.392
Income tax	(1.253)	336	1.039	(92)	30
Retained earnings	5.011	(1.346)	(4.154)	370	(119)

b. Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

43. contd.:

(i) **Service fees**

For the charge of service fee, revenue is currently recognised when the booking is made. Under IFRS 15, as there is only one performance obligation, revenue will be recognised on the date of the flight.

The Group's assessment indicates that this will result in revenue, and some associated costs, for these contracts being recognised later. The estimated impact on retained earnings at 1 January 2017 as a result of changes in accounting for contracts that have not been completed at that date is a decrease of USD 0.9 million. The impact of these changes on other items in the consolidated statement of financial position is an increase in deferred income.

(ii) **Change fees**

For the charge of change fee, revenue is currently recognised at the point the modification is made and the passanger is charged. Under IFRS 15, while the change service may have economic value, it is highly interrelated with the service of providing the flight, and is not considered a distinct service. Change fee revenue will therefore be recognised on the date of the flight.

The Group's assessment indicates that this will result in revenue, and some associated costs, for these contracts being recognised later. There is no impact on retained earnings at 1 January 2017 as a result of changes since the Group did recognise change fees at time of the flight until 1. april 2017 when a change was made and change fee revenue recognised at the point the modification was made and the passenger charged.

(iii) **Package tours**

For sold package tours, revenue is currently recognised at first day of travel. Under IFRS 15, the total consideration in the service contracts will be allocated to all services based on their stand-alone selling prices and revenue recognised as performance obligations are satisfied over time.

The Group's assessment indicates that this will result in revenue, and some associated costs, for these contracts being recognised later. The estimated impact of these changes are considered immaterial.

(iv) **Commission, credit card fees and booking fees**

Commission, credit card fees and booking fees are currently expensed when incurrred. Under IFRS 15 these costs qualify for capitalisation as they are considered to be incremental costs of obtaining a contract and are expected to be recovered. Capitalised costs should be amortised on a systematic basis that is consistent with the transfer to the customer of the services to which the asset relates.

The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group's assessment indicates that this will result in some associated costs being capitalised and recognised later. The estimated impact on retained earnings at 1 January 2017 as a result of changes in accounting for contracts that have not been completed at that date is an increase of USD 7.4 million. The impact of these changes on other items in the consolidated statement of financial position is an increase in trade and other receivables.

(v) **Transition**

The Group will adopt IFRS 15 retrospectively to each prior reporting period presented in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with the effect of initially applying this standard recognised as an adjustment to the opening balances of retained earnings at 1 January 2017.

43. contd.:

c. IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

(i) **Classification - Financial assets**

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive inome (FVOCI) and and fair value through profit and loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its consolidated financial statements.

(ii) **Impairment**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:
– 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
– lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Group has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

Based on its assessment, the Group does not believe that the new impairment requirements will have a material impact on its consolidated financial statements.

43. contd.:

(iii) **Classification - Financial liabilities**

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:
– the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
– the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

(iv) **Hedge accounting**

When initially applying IFRS 9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group has chosen to apply the new requirements of IFRS 9.

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting. The Group does not currently undertake hedges of such risk components.

The Group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings, receivables, sales and inventory purchases.

The Group designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationships. Under IAS 39, the change in fair value of the forward element of the forward exchange contracts ('forward points') is recognised immediately in profit or loss.

On adoption of IFRS 9, the Group has elected to separately account for the forward points as a cost of hedging. Consequently, the changes in forward points will be recognised in OCI and accumulated in a cost of hedging reserve as a separate component within equity and accounted for subsequently as gains and losses accumulated in the cash flow hedge reserve.

Under IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affect profit or loss. However, under IFRS 9, for cash flow hedges of foreign currency risk associated with forecast non-financial asset purchases, the amounts accumulated in the cash flow hedge reserve and the cost of hedging reserve will instead be included directly in the initial cost of the non-financial asset when it is recognised.

The types of hedge accounting relationships that the Group currently designates meet the requirements of IFRS 9 and are aligned with the entity's risk management strategy and objective.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its consolidated financial statements.

43. contd.:

(v) **Disclosures**

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

(vi) **Transition**

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

d. IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases

The Group has not completed an assessment of the impact on its consolidated financial statements. The actual impact applying IFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, inluding the Group´s borrowing rate at 1 January 2019, the composition of the Group´s lease portfolio at that date, the Group´s latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

The Group is assessing the impact of the adoption of IFRS 16 on its consolidated financial statement and does expect it to have substantial effect on the Group´s balance sheet at 1 January 2019.

Corporate Governance Statement

The framework

The Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers, along with the Company's Articles of Association, and rules for Issuers of Securities listed on the NASDAQ OMX Iceland, make up the framework for Icelandair Group's Corporate Governance practices. The Company's Articles of Association are accessible on the Company's website and the guidelines and the rules for Issuers are on the website of NASDAQ OMX Iceland.

The Company complies in all main respect to the rules mentioned above. The Company however does not have a Nomination Committee as the Board of Directors has not seen the need for it. No government organization has found the Company to be in breach with any rule or regulation regarding corporate governance.

In 2012 The Iceland Chamber of Commerce, the Confederation for Icelandic Employers and Nasdaq OMX Iceland hf. granted the Company a recognition for "Exemplary in corporate governance". The aim with the recognition is to increase credibility and transparency of Icelandic companies' corporate governance with respect to shareholders and interested parties.

Internal audit and risk management

The Group's Audit Committee oversees how the management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The committee shall oversee the annual accounts of the Company and the Group's consolidated accounts. The committee is responsible for evaluation of the independence and the eligibility of both the Company´s auditor and auditing firm. The committee shall make suggestions to the Board of Directors regarding the selection of the Company´s auditor. The Audit Committee held nine meetings in 2017.

Audit Commitee:
Katrín Olga Jóhannesdóttir, Chairman
Ásthildur Margrét Otharsdóttir
Georg Lúðvíksson

Values and code of ethics and corporate responsibility

The Company's values are:
WE CARE for our customers, employees, environment and shareholders.
WE THINK CLIENTS through consistency, reliability, clear product alternatives and friendly service.
WE DRIVE RESULTS via teamwork, shared information and values, accountability and profitability.

On 25 May 2009 the Board of Directors approved a Code of Ethics which was amended on 5 January 2011 and 18 November 2016. The Code of Ethics is accessible to all Company's employees through the Company's intranet, MyWork.

Compensation Committee

The purpose of the Compensation Committee is to avoid placing the Company's management in control of their own remuneration and, furthermore, to ensure that the management's remuneration is structured so as to serve the long-term interests of shareholders. The main tasks of the Compensation Committee are policy making with respect to the management's performance related bonuses, including stock options. The Committee conducts evaluations of management remuneration and monitors the management's acquisition of stock in the Company. The Compensation Committee meets on average four times a year.

Compensation Committee
Úlfar Steindórsson, Chairman
Ómar Benediktsson

The Board of Directors and Executive Committee

Board of Directors

Úlfar Steindórsson, Chairman

Born in 1956 and is CEO and Chairman of Toyota in Iceland ehf. and Jú ehf. He was CEO of Primex ehf in Siglufjordur from 2002-2004, and CEO of the New Business Venture Fund from 1999-2002. Úlfar is chairman of the board of Eignarhaldsfélagið Bifreiðar ehf., Bifreiðainnflutningur ehf., Bílaútleigan ehf., Okkar bílaleiga ehf., and TK bílar ehf. He is a Board member of Toyota á Íslandi ehf, Krókslóð ehf, TMH Iceland ehf, AB 257 ehf, UK fjárfestingar ehf, Johan Rönning hf, S.Guðjónsson ehf., Skorri ehf., My Car ehf. and UK fjárfestingar ehf. Úlfar holds a Cand. Oecon degree from the University of Iceland and an MBA from Virginia Commonwealth University. He joined the Board on 15 September 2010.

Ómar Benediktsson, Deputy Chairman

Is the CEO of Farice ehf. He is a Board Member of Landsnet hf. and Húsafell Resort ehf. Ómar has held various positions in the tourist and aviation industry in the past 30 years, among others at Island Tours, Islandsflug, Air Atlanta and SmartLynx airlines as well as being a Board Member on various boards in the industry. Ómar has a Cand. Oecon degree from the University of Iceland

Ásthildur Margrét Otharsdóttir

Born in 1968 and is an independent management consultant with prior business experience as Global Director of Treasury and Corporate Development at Össur hf., Senior Account Manager at Kaupthing Bank hf. and Management Consultant at Accenture in Copenhagen. She is Chairman of the Board of Directors of Marel hf. and Frumtak 2 Venture Fund. Ásthildur is a member of the Council of the University of Iceland and the Court of Arbitration of the Icelandic Chamber of Commerce. Ásthildur has an MBA degree from the Rotterdam School of Management, Erasmus University and a Cand. Oecon degree from the University of Iceland. She joined the Board on 23 March 2012.

Georg Lúðvíksson

Is co-founder and CEO of Meniga and was co-founder and VP of Product Management at Updown.com. Georg was the VP for Sales at Men and Mice from 2004-2006 and Co-founder and VP of Engineering and Services at Dimon Software Inc. Georg has as C.Sc. degree in Electrical and Computer Engineering from University of Iceland and a MBA degree from Harvard Business School.

Katrín Olga Jóhannesdóttir

Born in 1962 and is former Chief Strategy Officer of Skipti hf. and former Chairman and shareholder of Já hf. Before that she was VP for sales and marketing and VP for residential markets at Síminn hf. Prior to that she held a position as the Managing Director of Navision Iceland and was a management consultant at VSO. Katrín Olga currently serves on the Boards of Directors of Advania hf., the Iceland Chamber of Commerce and Reykjavik University. Having previously served on the Boards of the Central Bank of Iceland., Sirius IT and SkjáMiðlar. She holds a Cand. Oecon degree from the University of Iceland and an M.Sc. in Business Economics from Odense University. She joined the Board on 6 August 2009.

Executive committee

Björgólfur Jóhannsson, president and CEO

Born in 1955 and joined Icelandair Group in January 2008. Before joining Björgólfur was CEO of Icelandic Group hf. from March 2006. From 1992-1996 Björgólfur was CFO of UA in Akureyri. He served as the Director of Innovation and Development at Samherji hf. from 1996 and became CEO of Síldarvinnslan hf. in 1999, having worked as a chartered accountant for two auditing firms from 1980. Björgólfur served as Chairman of the Board of the Federation of Icelandic Fishing Vessel Owners from 2003-2008 and was the Chairman of the Confederation of Icelandic Employers from 2013-2017. He has also served as a Board member of the Iceland Chamber of Commerce. He graduated with a degree in Business Administration from the University of Iceland in 1983 and became a chartered accountant in 1985.

Bogi Nils Bogason, CFO
Birna Ósk Einarsdóttir, Chief Business Development Officer
Elísabet Helgadóttir, Chief Human Resources Officer
Guðmundur Óskarsson, Chief Commercial Officer
Gunnar Már Sigurfinnsson, Senior Vice President Icelandair Cargo
Jens Bjarnason, Senior Vice President Corporate Affairs
Jens Þórðarson, Chief Operating Officer
Magnea Þórey Hjálmarsdóttir, Managing Director of Icelandair Hotels

Board of Directors

The Company's Board of Directors exercises the supreme authority in the Company's affairs between shareholders' meetings, and it is entrusted with the task of ensuring that the organisation and activities of the Company's operation are at all times in correct and proper order.

The Board of Directors is instructed in the Company's Articles of Association to appoint a President and CEO for the Company and decide the terms of his or her employment. The Board of Directors and President and CEO are responsible for the management of the Company.

The Company's Board of Directors must at all times ensure that there is adequate supervision of the Company's accounts and the safeguarding of its assets and shall adopt working procedures in compliance with the Companies Act. Only the Board of Directors may assign powers of procuration on behalf of the Company. The signatures of the majority of the members of the Board are required to bind the Company. The President and CEO has charge of the day-to-day operation of the Company and is required in his work to observe the policy and instructions set out by the Company's Board of Directors. Day-to-day operation does not include measures which are unusual or extraordinary. Such measures can only be taken by the President and CEO with the specific authorization of the Board of Directors, unless it is impossible to await the decision of the Board without seriously disadvantaging the operation of the Company. In such instances, the President and CEO is required to consult with the Chairman of the Board, if possible, after which the Board of Directors must immediately be notified of the measures. The President and CEO shall ensure that the accounts and finances of the Company conform to the law and accepted practices and that all assets belonging to the Company are securely safeguarded. The President and CEO is required to provide the members of the Board of Directors and Company auditors with any information pertaining to the operation of the Company which they may request, as required by law.

Board of Directors contd.:

The Company's Board of Directors consists of five members elected at the annual general meeting for a term of one year. Those who intend to stand for election to the Board of Directors must inform the Board in writing of their intention at least five days before the annual general meeting, or extraordinary shareholders' meeting at which elections are scheduled. Only those who have informed the Board of their candidacy are eligible.

The Board of Directors elects a Chairman and Deputy Chairman from its members, and otherwise allocates its obligations among its members as needed. The Chairman calls Board meetings. A meeting must also be held if requested by a member of the Board of Directors or the President and CEO. Meetings of the Board are valid if attended by a majority of its members. However, important decisions shall not be taken unless all members of the Board have had an opportunity to discuss the matter, if possible. The outcome of issues is decided by force of vote, and in the event of an equality of votes, the issue is regarded as rejected. The President and CEO attends meetings of the Board of Directors, even if he or she is not a member of the Board, and has the right to participate in discussions and submit proposals unless otherwise decided by the Board in individual cases. A book of minutes is kept of proceedings at meetings and must be signed by participants in the meeting. A Board member who disagrees with a decision made by the Board of Directors is entitled to have his or her dissenting opinion entered in the book of minutes. The same applies to the President and CEO. The Chairman is responsible for the Board's relations with the shareholders and he shall inform the Board on the views of the shareholders.

On 12 September 2007 the Board of Directors approved Rules on Working Procedures for the Board which were amended on 10 August 2012. The Rules on Working Procedures are accessible to the Board of Directors and the management through the Board's intranet, Coredata. In accordance with article 14 of the Rules on Working Procedures the Board of Directors must annually evaluate its work, size, composition and practices, and must also evaluate the performance of the CEO and others responsible for the day-to-day management of the Company and its development. The annual performance assessment is intended to improve working methods and increase the efficiency of the Board. The assessment entails e.g. evaluation of the strengths and weaknesses of the Board's work and practices and takes into consideration the work components which the Board believes may be improved.

The Board of Directors elects the members of the two sub-committees; the Compensation Committee and the Audit Committee. The sub-committees adhere to the Rules on Working Procedures. The Board of Directors convened nineteen times during the year and all Board Members attended almost all meetings. All the Members of the Board of Directors are independent from the Company, except Ásthildur Margrét Otharsdóttir. All Board members were independent of the Company's major shareholders in 2017.

Non-Financial Reporting

About Icelandair Group ehf.

Icelandair Group operates in the international airline and tourism sectors with Iceland as the focal point of its international flight operations. Icelandair Group's business concept is built on Icelandair's Route Network. In addition to the international flights, operated by Icelandair, the Group has equity investments in the aviation industry and within the Icelandic tourism industry.

Icelandair Group and Society

Icelandair Group is a part of the Icelandic society and is proud of its role in the Icelandic community. The Company continues to seek new opportunities to expand its ties to society at large. That is how the Group energises the power of the Icelandic tourism industry for the benefit of Iceland as a nation. The Company focuses on creating sustainable value for its stakeholders by integrating into its business model a wide range of efforts to ensure social responsibility.

Environment

Minimize our impact on the environment by setting measurable targets, raising awareness and benchmarking our performance to do better than before.

Employees

Commitment to our employees with extensive programmes for human resource development.

Society

Co-operate with society and ensure that the impact of our operations is beneficial through direct contributions and positive engagement with society at large.

Environment

Icelandair Group is an environmentally conscious company, committed to addressing its environmental responsibilities. Last year the Company completed the implementation of Environmental Management Systems for all Icelandair Group companies. We are dedicated to minimising the environmental impact of our operations, both globally and locally, by reducing emissions, conserving natural resources and optimising the use of sustainable energy and materials. Icelandair Group's environmental impact is not limited to flight operations. It also involves ground facilities, offices and maintenance areas. Our goal is to maximise the use of green energy and minimise waste in all operations by embracing sustainable solutions.

Icelandair Group's Environmental Policy describes our approaches to protecting and preserving the environment. All Company employees are responsible for ensuring compliance with Company policy. Management at all Company subsidiaries and entities are adopting guidelines and procedures to comply with the Company's environmental policy. Minimising the environmental impact of our operations is an important element of Icelandair Group's business plan. We are focused on keeping Icelandair Group green by means of sustainable practices and optimal use of the resources at our disposal. Icelandair Group is committed to minimizing its impact on the environment by continuous improvement of the Company's environmental policies, sustainable material use and disposal, conduct of business with environmentally friendly suppliers and adherence to environmental protection principles. We recognise that even though the operations of our subsidiaries may vary, we share important principles. In addition to compliance with applicable laws and regulations, we show our continuing commitment by:

- Minimising our carbon footprint and raising awareness;
- Reducing waste by increasing recycling;
- Promoting responsible use of resources n Increasing the use of environment;
- Increasing the use of environmentally friendly products and services.

We are committed to supporting continuous improvement by setting measurable targets, raising awareness and benchmarking our performance.

Non-Financial Reporting, contd.:

Employees

Icelandair Group has grown at an extremely robust pace in recent years, adding many destinations, carrying many more passengers, adding a number of hotel rooms, and generally growing across all segments. As our business has expanded, so has our staff, which has grown by more than 90% since 2010. Icelandair Group seeks to attract talented and qualified personnel who can help the Company meet the challenges of the future while at the same time fitting into the existing corporate culture. We provide access for our employees to further development and training so that we can always select the best person for every job. We make every effort to improve the well-being of our employees, maintaining an attractive, yet challenging and demanding workplace, and enabling them to flourish and achieve their highest potential. Our HR strategy emphasises equality and non-discrimination and embraces diversity. We also train our employees in observing safety and security standards and we have in place detailed action plans designed to achieve our goals. We make sure that our employees are given equal opportunities to further their careers. Above all, we endeavour to make sure that all our employees feel they are part of a team. We regularly carry out work audit surveys among Icelandair Group employees, where we try to measure various indicators of how well our HR strategy is working. We regularly score high in job satisfaction and employee engagement, and in the latest survey, conducted this autumn, these factors showed higher scores than ever before.

Society

Icelandair Group and its subsidiaries support a wide variety of community activities all year round. The main focus is on support for Icelandic sports, Icelandic music, the Icelandic tourism industry and the Special Children Foundation.

Anti-corruption and bribery policy

Our anti-corruption and bribery policy establishes Icelandair Group's and all its subsidiaries global standards regarding the prevention of corruption and bribery. It is our policy to conduct all our business in an honest and ethical manner and the integrity of each and every member of our staff serves to maintain the good reputation and trust of Icelandair Group. Our policy addresses bribery and corruption, facilitation payments, extortion and whistle-blowing. The policy applies to the entire Icelandair Group workforce at all levels and grades (whether permanent, fixed-term or temporary), and all operations, subsidiaries and affiliates in all countries that we operate. All persons, representing or performing services for or on behalf of Icelandair Group must comply with applicable anti-bribery and anti-corruption legislation and policies and Icelandair Group's Code of Conduct. Those who work for or on behalf of Icelandair Group will not be penalised in any way for business advantage lost due to adherence to this policy. Deviations or non compliance, including attempts to circumvent or manipulate this policy, may result in disciplinary action, including termination.

Responsibility

Further information about Icelandair Group´s Corporate Social Responsibility is published in the Company´s Annual Report as well as on the Company´s website, www.icelandairgroup.is.

Quarterly statements (unaudited)

Unaudited summary of the Group's operating results by quarters:

	Q1	Q2	Q3	Q4	Total
Year 2017					
Operating income	222.372	368.887	536.030	292.239	1.419.528
Operating expenses excluding depreciation	(238.613)	(326.630)	(374.933)	(309.127)	(1.249.303)
Operating (loss) profit bef. depr. (EBITDA)	(16.241)	42.257	161.097	(16.888)	170.225
Depreciation	(25.887)	(30.850)	(34.291)	(29.403)	(120.431)
Operating (loss) profit (EBIT)	(42.128)	11.407	126.806	(46.291)	49.794
Net finance (expense) income	(1.944)	1.959	397	(2.007)	(1.595)
Share of profit (loss) of associates	470	61	(109)	170	592
(Loss) profit before income tax	(43.602)	13.427	127.094	(48.128)	48.791
Income tax	8.707	(2.171)	(25.755)	8.085	(11.134)
(Loss) profit	(34.895)	11.256	101.339	(40.043)	37.657
Other comprehensive (loss) profit	(13.201)	5.628	486	13.026	5.939
Total comprehensive (loss) income	(48.096)	16.884	101.825	(27.017)	43.596
Net cash from (used in) operating activities	125.497	90.801	(19.749)	12.002	208.551
Net cash used in investing activities	(75.782)	(51.297)	(53.154)	(48.186)	(228.419)
Net cash from (used in) financing activities	23.520	(6.416)	(2.399)	(3.099)	11.606
Year 2016					
Operating income	211.837	331.355	485.910	256.472	1.285.574
Operating expenses excluding depreciation	(210.083)	(277.467)	(324.160)	(254.019)	(1.065.729)
Operating profit bef. depr. (EBITDA)	1.754	53.888	161.750	2.453	219.845
Depreciation	(21.768)	(23.198)	(29.622)	(26.820)	(101.408)
Operating (loss) profit (EBIT)	(20.014)	30.690	132.128	(24.367)	118.437
Net finance (expense) income	(1.325)	2.132	(1.666)	1.576	717
Share of profit (loss) of associates	55	(58)	363	597	957
(Loss) profit before income tax	(21.284)	32.764	130.825	(22.194)	120.111
Income tax	4.288	(6.595)	(28.060)	(676)	(31.043)
(Loss) profit	(16.996)	26.169	102.765	(22.870)	89.068
Other comprehensive profit	9.175	22.647	9.562	8.198	49.582
Total comprehensive (loss) income	(7.821)	48.816	112.327	(14.672)	138.650
Net cash from (used in) operating activities	148.792	119.636	(19.933)	(39.471)	209.024
Net cash used in investing activities	(99.801)	(58.277)	(63.695)	(69.986)	(291.759)
Net cash (used in) from financing activities	(3.295)	(28.500)	(2.289)	147.727	113.643

Icelandair Group hf.

Consolidated Financial Statements
for the year 2016

USD

Icelandair Group hf.
Reykjavíkurflugvöllur
101 Reykjavík
Iceland
Reg. no. 631205-1780

Contents

Endorsement and Statement by the Board of Directors and the CEO

Operations in the year 2016

The financial statements comprise the consolidated financial statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The Group operates in the airline and tourism sectors with Iceland as a cornerstone of an international route network.

Profit for the year 2016 amounted to USD 89.1 million and total comprehensive income amounted to USD 138.7 million according to the consolidated statement of comprehensive income. Total equity at year end 2016 amounted to USD 568.2 million, including share capital of USD 40.6 million, according to the consolidated statement of financial postition. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity during the year.

The Board of Directors proposes a dividend payment to shareholders in 2017 of ISK 565 million, equal to USD 5.0 million, which represents 6% of profit for the year 2016.

Share capital and Articles of Association

The nominal value of the Company's issued share capital amounted to ISK 5.0 billion at year-end, of which the Company held treasury shares of ISK 25.0 million. The share capital is divided into shares of ISK 1, each with equal rights within a single class of shares listed on the Icelandic Stock Exchange (Nasdaq OMX Iceland). Companies can aquire and hold up to 10% of the nominal value of treasury shares according to the Icelandic Company's Act.

The Company's Board of Directors comprises five members elected at the annual general meeting for a term of one year. Those persons willing to stand for election must give formal notice thereof to the Board of Directors at least five days before the annual general meeting. The Company's Articles of Association may only be amended at a legitimate shareholders' meeting, provided that amendments and their main aspects are clearly stated in the invitation to the meeting. A resolution will only be valid if it is approved by at least 2/3 of votes cast and is approved by shareholders controlling at least 2/3 of the share capital represented at the shareholders' meeting.

The number of shareholders at year end 2016 was 2,559, an increase of 173 during the year. At year end 2016 the 10 largest shareholders were:

Name	Shares in ISK thousand	Shares in %
Lífeyrissjóður verslunarmanna	734.361	14,69
Stefnir Sjóðir	721.463	14,43
Lífeyrissjóður starfsmanna ríkisins A deild og B deild	466.040	9,32
Gildi - lífeyrissjóður	369.261	7,39
Landsbréf - Úrvalsbréf	188.237	3,76
Birta lífeyrissjóður	184.553	3,69
Stapi lífeyrissjóður	171.154	3,42
Sameinaði lífeyrissjóðurinn	145.102	2,90
Brú - Lífeyrissjóður starfsmanna sveitarfélaga	126.218	2,52
Söfnunarsjóður lífeyrisréttinda	102.106	2,04
	3.208.495	64,17
Other shareholders	1.766.045	35,32
Treasury shares	25.460	0,51
Total issued shares	5.000.000	100,00

Further information on matters related to share capital is disclosed in note 27. Additional information on shareholders is provided on the Company's website www.icelandairgroup.com.

Endorsement and statement by the Board of Directors and the CEO, continued:

Corporate Governance

The Group's management is of the opinion that practicing good Corporate Governance is vital for the existence of the Group and in the best interests of the shareholders, Group companies, employees and other stakeholders and will in the long run produce satisfactory returns on shareholders' investment. Corporate Governance exercised within Icelandair Group hf. ensures sound and effective control of the Company´s affairs and a high level of business ethics.

The framework for Corporate Governance practices within the Group consists of the provisions of law, the parent company's Articles of Association, general securities regulations and the Icelandic Corporate Governance guidelines issued by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and the Confederations of Icelandic Employers. Corporate Governance practices ensure open and transparent relationships between the Company´s management, its Board of Directors, its shareholders and other stakeholders.

The Board of Directors has prepared a Corporate Governance Statement in compliance with the Icelandic Corporate Governance guidelines which are described in full in the Corporate Governance Statement in the consolidated financial statements. It is the opinion of the Board of Directors that Icelandair Group hf. complies with the Icelandic guidelines for Corporate Governance.

Information on matters related to financial risk management is disclosed in note 33.

Non-Financial Reporting

The Company is a large public-interest entity. According to changes made to the Icelandic Financial Statements Act in June 2016 such companies should disclose in their management report relevant and useful information on their policies, main risks and outcomes relating to at least environmental matters, social and employee aspects, respect for human rights, anticorruption and birbery issues in addition to a short description of the Company's business model. The Company's policies and outcome of these matters are further discussed in an the Non-Financial Reporting in the consolidated finanical statements.

Statement by the Board of Directors and the CEO

The consolidated financial statements for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for financial statements of listed companies.

According to our best knowledge it is our opinion that the annual consolidated financial statements give a true and fair view of the consolidated financial performance of the Company for the year 2016, its assets, liabilities and consolidated financial position as at 31 December 2016 and its consolidated cash flows for the year 2016.

Further, in our opinion the consolidated financial statements and the endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the consolidated financial statements of Icelandair Group hf. for the year 2016 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the consolidated financial statements will be approved at the annual general meeting of Icelandair Group hf.

Reykjavík, 7 February 2017.
Board of Directors:

Sigurður Helgason, Chairman of the Board
Úlfar Steindórsson
Ásthildur Margrét Otharsdóttir
Katrín Olga Jóhannesdóttir
Magnús Magnússon

CEO:

Björgólfur Jóhannsson

Independent Auditors' Report

To the board of directors and shareholders of Icelandair Group hf.

Report on the audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Icelandair Group hf. (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of ethics for Icelandic auditors, which are based on the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have also fulfilled other ethical requirements of that rules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit responded to the key audit matter
Timing and accuracy of revenue recognition of passenger income *Reference is made to note 7 "Operating income" and 32 "Deferred income".* Passenger ticket sale is presented as deferred income in the consolidated statement of financial position until transportation has been provided. Then the sale is recognized as revenue. Large volume of transactions flow through various computer systems from the date of sale until the revenue is recognized in the consolidated statement of profit or loss. The recording process is complex which gives rise to an inherent risk of errors, in determining the amount and timing of the revenue recognition. Timing and accuracy in the registration of passenger income is therefore one of the key audit matters of our audit of the consolidated financial statements.	Our audit procedures were designed to challenge the accuracy of the revenue recognition. These procedures included testing of controls over the group's systems which govern the passenger ticket sale. We used the service of our IT specialists to test the appropriate controls such as access control, change management control and automated controls of the revenue systems. We also tested non-automated controls. The purpose of the testing was to assess if the design of controls was likely to ensure the accuracy and timing of the revenue recognition of passenger income and to test operating effectiveness of controls and as such evaluated the management monitoring of controls. We analysed passenger revenue and used external and internal information to set expectations which were compared to recognized revenue. We used substantive testing where we tested reconciliations between systems and revenue cut offs.

Independent Auditors' Report continued:

Key audit matter	How our audit responded to the key audit matter
Expected recoverable amount of intangible assets and goodwill *Reference is made to note 16 "Intangible assets and goodwill" and 44h "Impairment".* The carrying value of goodwill amounted to USD 139 m. and other intangible assets were USD 35.7 m. at year end 2016 as specified in note 16. The carrying value of intangible assets has been allocated to the applicable cash generating units within the Group. Management is required to perform an impairment test annually on goodwill and other intangible assets with indefinite useful lives. The purpose of an impairment test is to determine if goodwill and other intangible assets can be recovered through future cash flows. The recoverable amounts of individual cash generating units are determined by discounting the expected future cash flows generated from the continuing use of the units. The expected recoverable amount of intangible assets is one of the key audit matters due to the significance to the Group's consolidated statement of financial position, and due to inherent uncertainty involved in forecasting and discounting future cash flows which are the basis of the assessment of the recoverability of the intangible assets.	We used the service of our valuation specialists to assess the valuation models and assumptions used by management in their calculations of expected recoverable amount of each cash generating unit. We assessed the management assumptions by comparing them to both internal and external industry information. Our procedures included among others: - Management forecasts for each cash generating unit for the explicit period were compared to forecasts presented to the Board, historic revenue amounts, growth rates and historic industry statistics. Forecasts from prior periods were also compared to actual results to test its accuracy. - Assessing the reasonableness of management forecasts of the long term growth rate. - Assessing the reasonableness of management forecasts for changes in margins, new investments, utilization and changes in pricing. - Assessing the reasonableness of the discount rates applied by comparing them to current finance cost and market conditions for the cash generating units. - Review of information in the notes to the financial statements to confirm that all information required by applicable accounting policies were provided.

Other information

The Board of Directors and CEO are responsible for other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this auditor's report. In connection with our audit of the consolidated financial statements, our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report such matters.

Independent Auditors' Report continued:

Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and the CEO are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Group or cease operations, or have no realistic alternative but to do so.

The Board of Directors and CEO are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report continued:

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and were applicable, related safeguards.

From the matters communicated with The Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the endorsement and statement by the Board of Directors and the CEO

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statements Act no. 3/2006, we confirm that, to the best of our knowledge, the statement by the Board of Directors and the CEO accompanying the consolidated financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the consolidated financial statements.

Alexander G. Edvardsson and Auður Thorisdottir, auditors, are responsible for the audit of the financial statements and this auditor's report.

Reykjavik, 7 February 2017.

KPMG ehf.

Alexander G. Eðvardsson
Auður Þórisdóttir

Consolidated statement of profit or loss and other comprehensive income for the year 2016

	Notes	2016	2015 *Restated
Operating income			
Transport revenue	7	947.823	848.868
Aircraft and aircrew lease		84.574	83.356
Other operating revenue	7	253.177	207.475
		1.285.574	1.139.699
Operating expenses			
Salaries and other personnel expenses	8	354.253	278.015
Aviation expenses	8	420.250	401.194
Other operating expenses	8	291.226	233.824
		1.065.729	913.033
Operating profit before depreciation and amortisation (EBITDA)		219.845	226.666
Depreciation and amortisation	10	(101.408)	(83.826)
Operating profit (EBIT)		118.437	142.840
Finance income		6.414	5.134
Finance costs		(5.697)	(8.210)
Net finance income (costs)	11	717	(3.076)
Share of profit of associates	18	957	459
Profit before tax		120.111	140.223
Income tax	21	(31.043)	(29.000)
Profit for the year		89.068	111.223
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Currency translation differences		9.100	(1.686)
Effective portion of changes in fair value of cash flow hedge, net of tax		40.482	(118)
Other comprehensive income (loss) for the year		49.582	(1.804)
Total comprehensive income for the year		138.650	109.419
Owners of the Company		88.820	111.318
Non-controlling interests		248	(95)
Profit for the year		89.068	111.223
Total Comprehensive income attributable to:			
Owners of the Company		138.367	109.523
Non-controlling interests		283	(104)
Total comprehensive income for the year		138.650	109.419
Earnings per share:			
Basic earnings per share in US cent per share	28	1,79	2,24
Diluted earnings per share in US cent per share	28	1,79	2,24

* See note 4

The notes on pages 13 to 51 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position as at 31 December 2016

	Notes	2016	2015
Assets:			
Operating assets	13-16	602.615	419.071
Intangible assets and goodwill	17-18	174.704	172.694
Investments in associates	18	23.497	18.223
Deferred cost	19	63	118
Receivables and deposits	20	74.098	27.474
Non-current assets		874.977	637.580
Inventories	22	23.963	19.205
Trade and other receivables	23	139.280	101.075
Assets held for sale	24	4.148	0
Short term investments	25	23.236	19.533
Cash and cash equivalents	26	226.889	194.586
Current assets		417.516	334.399
Total assets		1.292.493	971.979
Equity:			
Share capital		40.576	40.576
Share premium		154.705	154.705
Reserves		114.849	1.400
Retained earnings		257.696	259.746
Equity attributable to equity holders of the Company	27	567.826	456.427
Non-controlling interests		387	104
Total equity		568.213	456.531
Liabilities:			
Loans and borrowings	29	196.722	55.387
Payables	30	13.289	8.644
Deferred tax liabilities	21	58.179	35.485
Non-current liabilities		268.190	99.516
Loans and borrowings	29	45.660	10.143
Trade and other payables	31	210.543	219.680
Deferred income	32	199.887	186.109
Current liabilities		456.090	415.932
Total liabilities		724.280	515.448
Total equity and liabilities		1.292.493	971.979

The notes on pages 13 to 51 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year 2016

	Attributable to equity holders of the Company						
2015	**Share capital**	**Share premium**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2015	40.576	154.705	3.195	166.371	364.847	208	365.055
Total comprehensive income			(1.795)	111.318	109.523	(104)	109.419
Dividend (0.38 USD cent per share) ...				(17.943)	(17.943)		(17.943)
Balance at 31 December 2015	40.576	154.705	1.400	259.746	456.427	104	456.531
2016							
Balance at 1 January 2016	40.576	154.705	1.400	259.746	456.427	104	456.531
Total comprehensive income			49.547	88.820	138.367	283	138.650
Profit of subsidiaries in excess of dividend received			63.902	(63.902)			
Dividend (0.54 US cent per share)				(26.968)	(26.968)		(26.968)
Balance at 31 December 2016	40.576	154.705	114.849	257.696	567.826	387	568.213

Information on changes in other reserves is provided in note 27.

The notes on pages 13 to 51 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year 2016

	Notes	2016	2015
Cash flows from operating activities:			
Profit for the year		89.068	111.223
Adjustments for:			
Depreciation and amortisation	10	101.408	83.826
Other operating items	43	20.325	16.211
Working capital from operations		210.801	211.260
Net change in operating assets and liabilities	44	(1.777)	33.876
Net cash from operating activities		209.024	245.136
Cash flows to investing activities:			
Acquisition of operating assets	12	(231.117)	(182.574)
Proceeds from sale of operating assets		1.160	2.528
Acquisition of intangible assets	16	(1.603)	(1.073)
Deferred cost, change		(10.677)	(26.753)
Investment in subsidiaries and associates		(5.994)	(15.552)
Non-current receivables, change		(39.852)	(7.882)
Short term investments, change		(3.676)	11.364
Net cash used in investing activities		(291.759)	(219.942)
Cash flows to financing activities:			
Dividend paid	27	(26.968)	(17.943)
Proceeds from non-current borrowings		150.700	23.660
Repayment of non-current borrowings		(10.089)	(20.037)
Net cash from (used in) financing activities		113.643	(14.320)
Increase in cash and cash equivalents		30.908	10.874
Effect of exchange rate fluctuations on cash held		1.395	(1.050)
Cash and cash equivalents at beginning of the year		194.586	184.762
Cash and cash equivalents at 31 December	26	226.889	194.586

Information on interest paid and received is provided in note 44.

The notes on pages 13 to 51 are an integral part of these consolidated financial statements.

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The address of the Company´s registered office is at Reykjavíkurflugvöllur in Reykjavík, Iceland. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries, together referred to as the “Group” and individually as "Group entities" and the Group´s interests in associates. The Group primarily operates in the airline and tourism industry. The Company is listed on the Nasdaq OMX Iceland.

2. Basis of preparation

a. Statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. They were authorised for issue by the Company's board of directors on 7 February 2017.

b. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments and certain short-term investments are stated at their fair values.

Details of the Group's accounting policies, including changes during the year, are included in Note 44.

3. Functional and presentation currency

The Company's functional currency is U.S. dollars (USD). These Consolidated Financial Statements are presented in U.S dollars (USD), except for information in note 39 on salaries and benefits of management for their service to Group companies. Payments to management are denominated and presented in ISK. All financial information presented in USD has been rounded to the nearest thousand, unless otherwise indicated.

4. Changes in presentation

Hedge accounting

The Group has changed it's presentation of realized currency translation difference of cash flow hedges in the Statement of comprehensive income. After the change the currency difference is presented in the Statement of Comprehensive income within the same line item as the hedged item is presented. Previously all currency differences on hedges were presented among finance income and expenses. The change had following effects on comparitive numbers:

	2015 Original	Change	2015 Restated
Salaries and other personnel expenses	280.244	2.229	278.015
Aviation expenses	406.649	5.455	401.194
Net finance income (costs)	4.608	(7.684)	(3.076)

5. Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2016 is included in the following notes:

Note 17 - measurement of the recoverable amounts of cash-generating units;
Note 32 - deferred income;
Note 34 - provisions and valuation of financial instruments;
Note 40 - reassessment of taxes;

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. The Director of Risk Management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The Risk Committee regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are catagorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 25 - short term investments;
Note 32 - deferred income;
Note 34 - derivatives;
Note 34 - non-derivative financial liabilities.

6. Operating segments

Segment information is presented in the consolidated financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure and is divided into three segments; Route network, Tourism services and Shared services.

Inter-segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Route network

The primary business strategy of the Route Network is to operate flights based on the Hub and Spoke concept between Europe and North America via Iceland, leveraging Iceland's geographical position. Icelandair's Hub and Spoke System is able to maximize flights to and from North America arriving in Iceland with easy connections to Scandinavia, the UK and Continental Europe. This successful strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed Icelandair to constantly grow and expand its route network over the last years.

Icelandair Cargo sells and markets the cargo space capacity of Icelandair's aircraft in the route network and in addition operates two dedicated freighters servicing the imports and exports market to and from Iceland. Loftleidir Icelandic leases and services aircraft to international clients. The aircraft is usually operated under the Icelandair Air Operator Certificate (AOC) and Icelandair Technical Services provides the maintenance service for Loftleidir's clients. Air Iceland is the regional airline that operates scheduled flights within Iceland and to Greenland.

Tourism services

The focus of the tourist services business segment is on catering to the growing demand for universal tourist services in Iceland. The segment comprises a wide array of the tourism value chain offering a wide collection of hotel brands and a full service tour operator. Icelandair Hotels is the Company's hotel chain offering four hotel brands through different geographies in Iceland. Iceland Travel is the Company's tour operator and destination manager focusing on offering top quality services to individuals and companies alike.

Shared services

Shared services companies mainly provide services to other Group Companies and partly to third party. Services provided include accounting, HR, treasury and credit management, ground handling, cargo warehousing, insurance and legal services. Shared services also provides financing through internal treasury system and owned real estate is leased to Group Companies.

Geographic information

The geographic information analyses the Group´s revenue as the majority of the Group's clients are outside of Iceland. The vast majority of the Group´s non-current assets are located in Iceland. In presenting the following information the Group's revenues have been based on geographic location of customers:

	2016	2015
Revenues		
North America	37%	37%
Iceland	25%	24%
West Continental Europe	14%	14%
Scandinavia	8%	9%
United Kingdom	7%	7%
Other	10%	9%
Total revenues	100%	100%

6. contd.:

Information on reportable segments

2016	**Route network**	**Tourism services**	**Shared services**	**Total**
External revenue	1.106.517	162.488	16.569	1.285.574
Inter-segment revenue	99.013	12.854	74.527	186.394
Segment revenue	1.205.530	175.342	91.096	1.471.968
Segment EBITDAR*	224.921	22.881	7.158	254.960
Operating lease expenses	(22.581)	(12.054)	(480)	(35.115)
Segment EBITDA	202.340	10.827	6.678	219.845
Finance income	15.623	238	8.818	24.679
Finance costs	(4.161)	(2.950)	(16.851)	(23.962)
Depreciation and amortisation	(92.743)	(3.874)	(4.791)	(101.408)
Share of profit of equity accounted investees	32	172	753	957
Reportable segment profit (loss) before tax	121.091	4.413	(5.393)	120.111
Reportable segment assets	897.597	53.590	982.181	1.933.368
Investment in associates	227	714	22.556	23.497
Capital expenditure	195.464	8.971	38.962	243.397
Reportable segment liabilities	549.153	40.424	401.015	990.592
2015				
External revenue	1.004.344	125.204	10.151	1.139.699
Inter-segment revenue	89.237	8.679	53.660	151.576
Segment revenue	1.093.581	133.883	63.811	1.291.275
Segment EBITDAR*	243.028	16.897	1.785	261.710
Operating lease expenses	(23.934)	(10.587)	(523)	(35.044)
Segment EBITDA	219.094	6.310	1.262	226.666
Finance income	3.572	91	5.884	9.547
Finance costs	(7.666)	(1.172)	(3.785)	(12.623)
Depreciation and amortisation	(79.317)	(2.777)	(1.732)	(83.826)
Share of profit of equity accounted investees	19	18	422	459
Reportable segment profit before tax	135.702	2.470	2.051	140.223
Reportable segment assets	756.443	38.516	592.685	1.387.644
Investment in associates	167	466	17.589	18.222
Capital expenditure	197.534	8.445	4.421	210.400
Reportable segment liabilities	509.136	27.349	126.125	662.610

*EBITDAR means EBITDA before operating lease expenses.

6. contd.:

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities, and other material items

	2016	2015
Revenue		
Total revenue for reportable segments	1.471.968	1.291.275
Elimination of inter-segment revenue	(186.394)	(151.576)
Consolidated revenue	1.285.574	1.139.699
Profit or loss		
Consolidated profit before tax	120.111	140.223
Assets		
Total assets for reportable segments	1.933.368	1.387.644
Investments in associates	23.497	18.222
Elimination of inter-segment assets	(664.372)	(433.887)
Consolidated total assets	1.292.493	971.979
Liabilities		
Total liabilities for reportable segments	990.592	662.610
Elimination of inter-segment liabilities	(266.312)	(147.162)
Consolidated total liabilities	724.280	515.448

Other material items	Reportable segment totals	Adjust-ments	Consoli-dated totals
2016			
Segment EBITDAR	254.960		254.960
Segment EBITDA	219.845		219.845
Finance income	24.679	(18.265)	6.414
Finance costs	(23.962)	18.265	(5.697)
Depreciation and amortisation	(101.408)		(101.408)
Share of profit of associates	957		957
Capital expenditure	243.397		243.397
2015			
Segment EBITDAR	261.710		261.710
Segment EBITDA	226.666		226.666
Finance income	9.547	(4.413)	5.134
Finance costs	(12.623)	4.413	(8.210)
Depreciation and amortisation	(83.826)		(83.826)
Share of loss of associates	459		459
Capital expenditure	210.400		210.400

7. Operating income

Transport revenue is specified as follows:

	2016	2015
Passengers	895.614	806.555
Cargo and mail	52.209	42.313
Total transport revenue	947.823	848.868

Other operating revenue is specified as follows:

Sale at airports and hotels	93.142	65.948
Revenue from tourism	109.980	91.555
Aircraft and cargo handling services	23.597	27.453
Maintenance revenue	2.797	3.439
Gain on sale of operating assets	782	1.529
Other operating revenue	22.879	17.551
Total other operating revenue	253.177	207.475

8. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	232.204	181.566
Contributions to pension funds	33.885	23.492
Other salary-related expenses	28.912	24.731
Other personnel expenses	59.252	48.226
Total salaries and other personnel expenses	354.253	278.015
Average number of full year equivalents	3.900	3.384

Aviation expenses are specified as follows:

Aircraft fuel	213.418	223.828
Aircraft lease	20.687	22.896
Aircraft handling, landing and communication	108.784	85.662
Aircraft maintenance expenses	77.361	68.808
Total aviation expenses	420.250	401.194

Other operating expenses are specified as follows:

Operating cost of real estates and fixtures	26.298	22.140
Communication	23.135	18.038
Advertising	28.609	23.902
Booking fees and commissions	54.727	48.910
Cost of goods sold	27.888	21.092
Customer services	29.486	20.578
Tourism expenses	70.450	52.301
Other operating expenses	30.633	26.863
Total other operating expenses	291.226	233.824

9. Auditor's fee

Auditor's fee are specified as follows:

Audit	421	324
Other services	85	104
Total auditor´s fee	506	428

10. Depreciation and amortisation

The depreciation and amortisation charge in profit or loss is specified as follows:

	2016	2015
Depreciation of operating assets, see note 12	99.179	80.146
Amortisation of intangible assets, see note 16	2.229	3.680
Depreciation and amortisation recognised in profit or loss	101.408	83.826

11. Finance income and finance costs

Finance income and finance costs are specified as follows:

Interest income on bank deposits	3.157	2.074
Other interest income	173	860
Net currency exchange gain	3.084	2.200
Finance income total	6.414	5.134
Interest expense on loans and borrowings	4.798	7.338
Other interest expenses	899	872
Finance costs total	5.697	8.210
Net finance income (costs)	717	(3.076)

12. Operating assets

Operating assets are specified as follows:

Cost	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Balance at 1 January 2015	420.276	31.719	50.940	502.935
Additions	159.565	9.299	13.710	182.574
Sales and disposals	(49.877)	(248)	(3.589)	(53.714)
Effects of movements in exchange rates	(32)	(567)	(731)	(1.330)
Balance at 31 December 2015	529.932	40.203	60.330	630.465
Additions	180.018	34.417	16.682	231.117
Additions due to acquisition of subsidiary	0	43.791	0	43.791
Sales and disposals	(56.496)	0	(1.354)	(57.850)
Reclassification of assets held for sale	(9.878)	0	0	(9.878)
Effects of movements in exchange rates	529	10.432	6.673	17.634
Balance at 31 December 2016	644.105	128.843	82.331	855.279
Depreciation and impairment losses				
Balance at 1 January 2015	155.795	8.713	19.087	183.595
Depreciation	72.552	1.570	6.024	80.146
Sales and disposals	(48.131)	(176)	(3.349)	(51.656)
Effects of movements in exchange rates	(13)	(191)	(487)	(691)
Balance at 31 December 2015	180.203	9.916	21.275	211.394
Depreciation	88.366	2.168	8.645	99.179
Additions due to acquisition of subsidiary	0	387	0	387
Sales and disposals	(56.135)	0	(1.363)	(57.498)
Reclassification of assets held for sale	(5.730)	0	0	(5.730)
Effects of movements in exchange rates	126	1.661	3.145	4.932
Balance at 31 December 2016	206.830	14.132	31.702	252.664
Carrying amounts				
At 1 January 2015	264.481	23.006	31.853	319.340
At 31 December 2015	349.729	30.287	39.055	419.071
At 31 December 2016	437.275	114.711	50.629	602.615
Depreciation ratios	6-20%	2-6%	5-33%	

12. contd.:

Aquisition of operating assets in 2016 amounted to USD 231.1 million. Included are five Boeing aircraft, overhaul of own engines and aircraft spare parts in the amount of USD 122.4 million.

13. Mortgages and commitments

The Group's operating assets, aircraft and spare parts are mortgaged to secure debt. The remaining balance of the debt amounted to USD 58.2 million at year end 2016 (2015: USD 30.9 million). The Group owns 36 aircraft, of which 31 are unencumbered, including 25 Boeing 757 and 1 Boeing 767.

14. Insurance value of aircraft and flight equipment

The insurance value and carrying amount of the Group's aircraft and related equipment at year-end is specified as follows:

	Insurance value		Carrying amounts	
	2016	**2015**	**2016**	**2015**
Boeing - 31 / 26 aircraft	638.000	581.000	346.122	263.311
Other aircraft	58.466	78.300	42.353	42.187
Flight equipment	84.862	63.998	48.800	44.231
Total aircraft and flight equipment	781.328	723.298	437.275	349.729

15. Insurance value of buildings and other operating assets

The principal buildings owned by the Group are the following:

2016	Maintenance hangars	Hotels	Office buildings	Other buildings	Under construction	Total
Official assessment value	24.860	30.983	23.398	8.259	18.703	106.203
Insurance value	42.173	43.491	39.937	10.408	31.760	167.769
Carrying amounts	4.703	71.819	23.278	3.426	11.485	114.711
Square meters	19.135	24.577	17.850	8.263	15.343	85.168
Vacant space (square meters)		380				380
2015						
Official assessment value	17.654	2.099	16.624	4.162	0	40.539
Insurance value	36.038	7.130	34.354	8.504	0	86.026
Carrying amounts	4.448	1.910	21.244	2.685	0	30.287
Square meters	19.135	2.678	17.850	7.215	0	46.878

Official valuation of the Group's leased land for buildings at 31 December 2016 amounted to USD 12.9 million (2015: USD 8.5 million) and is not included in the statement of financial position.

The insurance value of the Group's other operating assets and equipment amounted to USD 110.0 million at year end 2016 (2015: USD 80.8 million). The carrying amount at the same time was USD 50.6 million (2015: USD 39.1 million).

16. Intangible assets and goodwill

Intangible assets and goodwill are specified as follows:

Cost	Goodwill	Trademarks and slots	Customer relations	Other intangibles	Total
Balance at 1 January 2015	148.516	35.961	5.158	9.595	199.230
Additions	0	0	0	1.073	1.073
Sales and disposals	0	0	(5.142)	(604)	(5.746)
Effect of movements in exchange rates	(615)	(5)	(16)	(76)	(712)
Balance at 31 December 2015	147.901	35.956	0	9.988	193.845
Additions	0	0	0	1.603	1.603
Sales and disposals	0	0	0	(6.689)	(6.689)
Effect of movements in exchange rates	2.547	34	0	115	2.696
Balance at 31 December 2016	150.448	35.990	0	5.017	191.455
Amortisation and impairment losses					
Balance at 1 January 2015	11.431	2.605	4.801	4.420	23.257
Amortisation	0	0	355	3.325	3.680
Sales and disposals	0	0	(5.142)	(604)	(5.746)
Effect of movements in exchange rates	0	0	(14)	(26)	(40)
Balance at 31 December 2015	11.431	2.605	0	7.115	21.151
Amortisation	0	0	0	2.229	2.229
Sales and disposals	0	0	0	(6.689)	(6.689)
Effect of movements in exchange rates	0	0	0	60	60
Balance at 31 December 2016	11.431	2.605	0	2.715	16.751
Carrying amounts					
At 1 January 2015	137.085	33.356	357	5.175	175.973
At 31 December 2015	136.470	33.351	0	2.873	172.694
At 31 December 2016	139.017	33.385	0	2.302	174.704

17. Impairment test

Goodwill and other intangible assets that have indefinite life are tested for impairment at each reporting date. These assets were recognised at fair value on acquistion dates. Goodwill and other intangible assets with indefinite life are specified as follows:

	2016	2015
Goodwill	139.017	136.470
Trademarks and airport slots	33.385	33.351
Total	172.402	169.821

The increase in the carrying amount of goodwill is do to translation differences of subsidiaries with functional currencies other than USD.

17. contd.:

For the purpose of impairment testing, goodwill is allocated to the units which represent the level within the Group at which the goodwill is monitored for internal management purposes. The aggregate carrying amounts of goodwill allocated to each cash generated unit (CGU) are as follows:

	Goodwill		Trademarks and slots	
	2016	**2015**	**2016**	**2015**
Route network	137.149	134.541	33.385	33.351
Tourism services	1.868	1.929	0	0
Total goodwill	139.017	136.470	33.385	33.351

The recoverable amounts of cash-generating units was based on their value in use and were determined by discounting the future cash flows generated from the continuing use of the CGU. Cash flows were projected based on actual operating results and a 5 - 10 year business plan. Cash flows were extrapolated for determining the residual value using a constant nominal growth rate which was consistent with the long-term average growth rate for the industry. Management believes that this forecast period was justified due to the long-term nature of the business.

The values assigned to the key assumptions represent management's assessment of future trends in the airline, transportation and the tourism industry and are based on both external and internal sources (historical data). Value in use was based on the following key assumptions:

	Route network		Tourism services	
	2016	**2015**	**2016**	**2015**
Long term growth rate	2,5-4,0%	2,5-4,0%	4,0%	4,0%
Revenue growth:				
Weighted average 2016 / 2015	11,4%	3,0%	25,9%	23,2%
2016 - 2026 / 2015 - 2025	8,9%	9,0%	17,3%	12,4%
Budgeted EBITDA growth	8,4%	4,2%	28,1%	28,0%
WACC	9,3-14,2%	8,2-12,8%	9,1%	10,9%
Debt leverage	10,2-56,9%	10,2-53,2%	33,4%	19,1%
Interest rate for debt	5,0-7,5%	5,1-7,8%	3,1%	4,4%

The recoverable amount of the cash-generating units was estimated to be higher than its carrying amount and no impairment was required.

18. Investment in associates

The Group has interests in number of associates. The carrying amount and share of profit of the associates is as follows:

	2016		2015	
	Investment	**Operating result**	**Investment**	**Operating result**
Lindarvatn ehf.	16.590	(5)	14.457	0
ITF 1 slhf.	5.649	588	2.744	64
Other investments	1.258	374	1.022	395
Total investments in associates	23.497	957	18.223	459

Lindarvatn ehf. is the owner of the property and other properties located near Austurvollur. In total the properties are 15.000 square meters but the new hotel is expected to be 11.000 square meters.

ITF 1 slhf. is a fund managed by Landsbref. The fund is menat to invest in Icelandic Companies focusing on entertainment and experience for foreign tourists. The focus is on whole year projects which contributes to better utilization of the infrastructure in the Icelandic Tourism industry.

19. Deferred cost

Deferred cost consists of prepaid lease on housing and amounts paid for engine overhauls and heavy maintenance of leased aircraft which will be expensed over the lease period of the aircraft. Deferred cost is specified as follows:

	2016	2015
Deferred cost	120	405
Current portion, classified as prepayments among receivables	(57)	(287)
Total deferred cost	63	118

Deferred cost will be expensed as follows:

Expensed in 2016	-	287
Expensed in 2017	57	63
Expensed in 2018	63	55
Total deferred cost, including current maturities	120	405

20. Non-current receivables and deposits

Non-current receivables consist of notes, deposits for aircraft and engine lease agreements and various other travel related security fees.

Non-current receivables and deposits are specified as follows:

Loans, effective interest rate 6% / 6%	208	359
Security deposits	5.795	8.426
Prepayments on aircraft purchases	68.419	22.348
	74.422	31.133
Current maturities	(324)	(3.659)
Non-current receivables and deposits total	74.098	27.474

Contractual repayments mature as follows:

Maturities in 2016	-	3.659
Maturities in 2017	324	554
Maturities in 2018	38.098	12.919
Maturities in 2019	25.988	7.350
Maturities in 2020	5.514	2.525
Maturities in 2021	1.527	1.832
Subsequent	2.971	2.294
Total non-current receivables and deposits, including current maturities	74.422	31.133

Non-current receivables and deposits denominated in currencies other than the functional currency comprise USD 1.5 million (2015: USD 1.1 million).

21. Taxes

Tax recognised in profit or loss

	2016	2015
Current tax expense		
Current year	14.024	22.606
Reassessment of taxes due to prior years	8.099	(2.238)
	22.123	20.368
Deferred tax expense		
Origination and reversal of temporary differences	12.576	10.828
Exchange rate difference	(3.656)	42
	8.920	10.870
Total tax expense recognised in profit or loss	31.043	29.000

Tax recognised in other comprehensive income

Effective portion of changes in fair value of cash flow hedge	(10.118)	30
Exchange rate difference	0	(6)
Total tax recognised in other comprehensive income	(10.118)	24

Reconciliation of effective tax rate

		2016		2015
Profit before tax		120.111		140.223
Income tax according to current tax rate	20,0%	24.022	20,0%	28.045
Non-deductible expenses	0,5%	547	0,2%	324
Reassessment of taxes due to prior years	6,7%	8.099		0
Other items	(1,4%)	(1.625)	0,4%	631
Effective tax rate	25,8%	31.043	20,6%	29.000

Recognised deferred tax liabilities

Deferred tax liabilities are specified as follows:

	2016	2015
Deferred tax liabilities 1 January	35.485	24.681
Exchange rate difference	3.656	(36)
Deferred tax recognised in profit or loss	8.920	10.870
Income tax recognised in other comprehensive income	10.118	(30)
Deferred tax liabilities 31 December	58.179	35.485

21. contd.:

Deferred tax liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Operating assets	0	0	(51.580)	(40.170)	(51.580)	(40.170)
Intangible assets	0	0	(955)	(812)	(955)	(812)
Derivatives	0	6.015	(4.103)	0	(4.103)	6.015
Trade receivables	0	132	(898)	0	(898)	132
	0	6.147	(57.536)	(40.982)	(57.536)	(34.835)
Tax loss carry-forwards	1.595	611	0	0	1.595	611
Other items	0	0	(2.238)	(1.261)	(2.238)	(1.261)
Deferred income tax	1.595	6.758	(59.774)	(42.243)	(58.179)	(35.485)

Movements in deferred tax balance during the year

2016	**1 January**	**Recognised in profit or loss**	**Exchange rate difference**	**Recognised in other comprehensive income and equity**	**31 December**
Operating assets	(40.170)	(8.302)	(3.108)	0	(51.580)
Intangible assets	(812)	(155)	12	0	(955)
Derivatives	6.015	0	0	(10.118)	(4.103)
Trade receivables	132	(1.020)	(10)	0	(898)
Tax loss carry-forwards	611	266	18	0	895
Other items	(1.261)	291	(568)	0	(1.538)
	(35.485)	(8.920)	(3.656)	(10.118)	(58.179)
2015					
Operating assets	(29.810)	(10.403)	43	0	(40.170)
Intangible assets	(1.217)	412	(7)	0	(812)
Derivatives	5.991	0	(6)	30	6.015
Trade receivables	199	(64)	(3)	0	132
Tax loss carry-forwards	557	55	(1)	0	611
Other items	(401)	(870)	10	0	(1.261)
	(24.681)	(10.870)	36	30	(35.485)

The effect of a reassessment of taxes due to prior years of USD 8,0 million is included in the tax expense of the year in profit or loss. Further information on the reassessment is provided in note 40.

22. Inventories

Inventories are specified as follows:

	2016	2015
Spare parts	18.574	15.030
Other inventories	5.389	4.175
Inventories total	23.963	19.205

23. Trade and other receivables

Trade and other receivables are specified as follows:

Trade receivables	84.065	66.449
Prepayments	9.096	3.716
Restricted cash	3.423	8.693
Derivatives used for hedging	20.560	3.104
Current maturities of long term-receivables	324	3.659
Other receivables	21.812	15.454
Trade and other receivables total	139.280	101.075

At year end trade receivables are presented net of an allowance for doubtful debts of USD 5.2 million (2015: USD 6.4 million).

Prepaid expenses which relate to subsequent periods amounted to USD 9.1 million (2015: USD 3.7 million) at year end. The prepayments consist mainly of prepaid contractual obligations, insurance premiums, software licenses and leases.

Restricted cash is held in bank accounts pledged against credit cards, derivatives and tourism guarantees.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 33.

24. Assets classified as held for sale

Assets classified as held for sale at year end consist of four Fokker 50 aircraft which Air Iceland has taken out of service.

25. Short term investments

Short term investments at year end consist of securities listed on stock exchanges in Luxemburg and Iceland and fixed deposits. They are recognized at fair value at year end, based on market value.

26. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	2016	2015
Securities	71.772	4.324
Bank deposits	154.785	189.912
Cash on hand	332	350
Cash and cash equivalents total	226.889	194.586

27. Equity

Share capital

The Company's share capital amounts to ISK 5.0 billion according to its Articles of Association. Shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share of one ISK.

The Company held treasury shares in the amount of ISK 25.0 million at year end 2016 (2015: ISK 25.0 million).

Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve. The balance of the share premium account can be used to offset losses not covered by other reserves or to offset stock splits.

Reserves

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The translation reserve comprises all currency differences arising from the translation of the financial statements of subsidiaries having functional currencies other than the Group, as well as from the translation of liabilities that hedge net investment.

According to changes made to the Icelandic Financial Statement Act in 2016, companies must present in a seperate equity account recognized share in profit of subsidiaries and associates in in excess of dividend received or declared. The effect of the new legislation is presented as other reserves in the specfication below.

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Other reserves	Total reserves
Balance 1 January 2015	(23.941)	27.136	0	3.195
Currency translation differences		(1.677)		(1.677)
Effective portion of changes in fair value of cash flow hedges, net of tax	(118)			(118)
Balance at 31 December 2015	(24.059)	25.459	0	1.400
Share in profit of subsidiaries and associates			108.016	108.016
Dividend received			(44.114)	(44.114)
Currency translation differences		9.065		9.065
Effective portion of changes in far value of cash flow hedges, net of tax	40.482			40.482
Balance at 31 December 2016	16.423	34.524	63.902	114.849

Dividend

The Board of Directors has approved to the following dividend policy: “The Company's goal is to declare 20-40% of annual net profit as dividend. Final decision on dividend payments will be based on the financial position of the Company, operating capital requirements and market conditions.”

Dividend amounting to USD 27.0 million was paid to shareholders in the year 2016 (2015: USD 17.9 million).

The Board of Directors proposes a dividend payment to shareholders in 2017 of ISK 565 million, equal to USD 5.0 million, which represents 6% of profit for the year 2016.

28. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Parent by the weighted average number of outstanding shares during the year. The calculation of diluted earnings per share is identical to basic earnings per share as no convertible notes or stock options have been issued.

	2016	2015
Basic earnings per share:		
Profit for the year attributable to equity holders of the parent company	88.820	111.318
Weighted average number of shares for the year	4.974.540	4.974.540
Basic earnings per share in US cent per share	1,79	2,24
Diluted earnings per share in US cent per share	1,79	2,24

29. Loans and borrowings

This note provides information on the contractual terms of the Group´s interest-bearing loans and borrowings, which are measured at amortised cost. For more information on the Group´s exposure to interest rate, foreign currency and liquidity risk, see note 33.

Loans and borrowings are specified as follows:

Secured bank loans	58.195	30.852
Unsecured bonds	184.187	34.678
Total loans and borrowings	242.382	65.530
Current maturities	(45.660)	(10.143)
Total non-current loans and borrowings	196.722	55.387

Current loans and borrowings are specified as follows:

Current maturities of non-current liabilities	45.660	10.143
Total loans and borrowings	242.382	65.530

Terms and debt repayment schedule:

	Currency	Nominal interest rates year end 2016	Year of maturity	Total remaining balance 2016	2015
Secured bank loans	USD	4,4%	2017-2022	21.082	29.256
Secured bank loans	ISK			0	870
Secured bank loans, indexed	ISK	4,3%	2025	1.728	726
Unsecured bond issue	USD	4,6%	2020-2021	172.527	23.596
Unsecured bond issue, indexed	ISK	5,7%	2023	11.660	11.082
Secured bank loans - short term	ISK	6,6%	2017	35.385	0
Total interest bearing liabilities				242.382	65.530

Repayments of loans and borrowings are specified as follows:

Repayments in 2016	-	10.143
Repayments in 2017	45.660	10.189
Repayments in 2018	5.585	5.524
Repayments in 2019	2.390	2.332
Repayments in 2020	26.175	26.118
Repayments in 2021	152.661	2.567
Subsequent repayments	9.911	8.657
Total loans and borrowings	242.382	65.530

30. Non-current payables

Non-current payables correspond to accrued engine overhaul cost of leased aircraft and security deposits from lease contracts to be realized after 2017. Non-current obligations are specified as follows:

	2016	2015
Non-current payables	16.573	19.334
Current portion, classified in trade and other payables	(3.284)	(10.690)
Total non-current payables	13.289	8.644

Non-current payables will be repaid as follows:

Repayments in 2016	-	10.690
Repayments in 2017	3.284	3.255
Repayments in 2018	5.852	2.454
Repayments in 2019	3.487	1.199
Repayments in 2020	976	736
Repayments in 2021	2.974	1.000
Total non-current payables, including current maturities	16.573	19.334

31. Trade and other payables

Trade and other payables are specified as follows:

Trade payables	55.977	41.569
Current portion of engine overhauls and security deposits from lease contracts	3.284	10.690
Derivatives used for hedging	436	33.075
Income tax payable	14.048	20.368
Other payables	136.798	113.978
Total trade and other payables	210.543	219.680

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 33.

32. Deferred income

Sold unused tickets, fair value of unutilized frequent flyer points and other prepayments are presented as deferred income in the statement of financial position.

Deferred income is specified as follows:

	2016	2015
Sold unused tickets	164.580	158.958
Frequent flyer points	18.800	16.660
Other prepayments	16.507	10.491
Total deferred income	199.887	186.109

The amount allocated to frequent flyer points is estimated by reference to the fair value of the discounted services for which they could be redeemed, since the fair value of the points themselves is not directly observable. The fair value of the discounted services for which the points, granted through a customer loyalty programme, can be redeemed takes into account the expected redemption rate and the timing of such expected redemptions. That amount is recognised as deferred income.

33. Financial risk management

Overview

The Group has exposure to the following financial risks:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the risks above, the Group's objectives, policies, and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Company's Risk Management Commitee is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Exposure to credit risk

The carrying amounts of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

		Carrying amount	
	Note	**2016**	**2015**
Non-current receivables and deposits	20	74.098	27.474
Trade and other receivables	23	130.184	97.359
Short term investments	25	23.236	19.533
Cash and cash equivalents	26	226.889	194.586
		454.407	338.952

33. contd.:

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Credit risk is linked to trade receivables, investment in liquid assets and agreements with financial institutions related to hedging. The relative spread of trade receivables across counterparties is also crucial for credit risk exposure. The risk involved is directly related to the fulfilment of outstanding obligations of the Group's counterparties. The Group is aware of potential losses related to credit risk exposure and chooses its counterparties subject to business experience.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

At year end 2016, the maximum exposure to credit risk for trade and other receivables by type of counterparty was as follows:

	2016	2015
Credit cards	51.609	45.835
Trade receivables	32.456	20.614
	84.065	66.449
Other receivables	55.215	34.626
	139.280	101.075

Impairment losses

The aging of trade receivables at the reporting date was as follows:

	Gross 2016	Allowance for Impairment 2016	Gross 2015	Allowance for Impairment 2015
Not past due	65.172	(510)	47.888	(397)
Past due 1-30 days	12.010	(53)	14.224	(102)
Past due 31-120 days	6.540	(899)	4.360	(586)
Past due 121-365 days	1.248	(450)	1.370	(627)
More than one year	4.248	(3.241)	4.964	(4.645)
Total	89.218	(5.153)	72.806	(6.357)

Changes in the allowance for impairment in respect of trade receivables during the year were as follows:

	2016	2015
Balance at 1 January	6.357	5.390
Impairment loss allowance, increase (decrease)	811	1.785
Amounts written off	(2.048)	(781)
Exchange rate difference	33	(37)
Balance at 31 December	5.153	6.357

Based on historical default rates, the management believes that minimal impairment allowance is necessary in respect of trade receivables not past due or past due by 30 days; a significant part of the balance relates to customers that have a good track record with the Group.

The allowance account in respect of trade receivables is used to record impairment losses. If the Group believes that no recovery is possible the financial asset is written off directly.

33. contd.:

Guarantees
The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries.

Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount of three months operating cost on average where 30% can be in the form of unused lines of credit.

The Company's management monitors its cash flow requirements by using rolling forecast and the liquidity management is based on projected cash flow in different currencies.

Following are the contractual maturities of financial liabilities at the reporting date, including estimated interest payments:

31 December 2016	**Carrying amount**	**Contractual cash flows**	**Within 12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Non-derivative financial liabilities						
Unsecured bank loans	184.187	232.639	13.065	10.415	205.026	4.133
Secured loans	58.195	61.395	46.015	4.701	4.872	5.807
Payables & prepayments	223.832	223.832	210.543	5.852	7.437	0
Exposure to liquidity risk	466.214	517.866	269.623	20.968	217.335	9.940
Derivative financial liabilities						
Commodity derivatives	11.788	12.171	12.259	(88)	0	0
Forward exchange contracts	8.415	12.338	12.338	0	0	0
Interest rate swaps	(79)	(64)	(170)	(192)	298	0
Exposure to liquidity risk	20.124	24.445	24.427	(280)	298	0
31 December 2015						
Non-derivative financial liabilities						
Unsecured bond issue	34.678	42.294	3.272	2.769	30.962	5.291
Secured loans	30.852	35.649	10.923	9.584	7.999	7.143
Payables & prepayments	228.324	228.324	219.680	3.255	4.389	1.000
Exposure to liquidity risk	293.854	306.267	233.875	15.608	43.350	13.434
Derivative financial liabilities						
Commodity derivatives	(33.075)	(33.215)	(33.215)	0	0	0
Forward exchange contracts	3.333	5.183	5.183	0	0	0
Exposure to liquidity risk	(29.742)	(28.032)	(28.032)	0	0	0

Unused unsecured credit lines at year end 2016 amounted to USD 74.4 million (2015: USD 73.9 million).

In addition to the liquidity exposure presented in the balance sheet the Group is exposed to off balance sheet liabilities. Further information on these liabilities is provided in note 35 and 38.

33. contd.:

Market risk

Market risk emerges from changes in market prices, such as foreign exchange rates, interest rates, carbon prices and fuel prices, as those changes will affect the Group's cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group uses spot and forward trading, swaps and options in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. The Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Fuel risk

The Group is exposed to fuel price risk. The Group´s fuel price risk managment strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in the event of a substantial fall in the price of fuel. The current Group strategy as reflected in the policy is to hedge between 40% and 60% of fuel consumption 12 months forward and upto 20% from 13-18 months forward. In implementing the strategy, the hedge programme allows for a number of derivatives with approved counterparties and within approved limits. At year end the 60% of an estimated 12 months exposure of 325 k M.tonnes was hedged with swaps.

Sensitivity analysis

The following table demonstrates the sensitivity of the financial instruments in place at year end to a reasonably possible change in fuel prices, with all other variables held constant, on profit before tax and equtiy:

	Effect on equity		Effect on profit before tax	
	2016	**2015**	**2016**	**2015**
Increase in fuel prices by 10%	11.963	7.126	0	0
Decrease in fuel prices by 10%	(11.963)	(7.126)	0	0

Currency risk

The Group is exposed to currency risk on sales, purchases, trade and other receivables, short term investments, cash and cash equivalents, secured bank loans and trade payables that are denominated in a currency other than the respective functional currencies of Group entities.

The Group seeks to reduce its foreign exchange exposure arising from currency mismatch in the cashflow by netting receipts and payments in each individual currency and by internal trading within the Group. The shortfall of USD and ISK are financed by a surplus of European currencies, most importantly EUR and Scandinavian currencies but also GBP and CAD. The exposure is hedged 50-80% 9-12 months forward with spot and forward contracts.

33. contd.:

Exposure to currency risk

The Group's exposure to currency risk in it's major currencies is as follows:

2016	**ISK**	**EUR**	**GBP**	**DKK**	**SEK**	**CAD**
Receivables / payables, net	(42.193)	(24.156)	(12.718)	(3.468)	(3.203)	(11.252)
Cash and cash equivalents	23.325	20.534	7.530	3.186	3.662	5.468
Secured bank loans	(11.660)	0	0	0	0	0
Forward exchange contracts	118.302	(27.954)	(19.780)	(17.024)	(22.239)	(26.104)
Net statement of financial position exposure	87.774	(31.576)	(24.968)	(17.306)	(21.780)	(31.888)
Next 12 months forecast sales	286.721	310.523	71.745	26.879	30.077	84.236
Next 12 months forecast purchases	(551.029)	(256.163)	(26.571)	(11.038)	(3.405)	(15.931)
Net 12 months currency exposure	(176.534)	22.784	20.206	(1.465)	4.892	36.417
2015						
Receivables / payables, net	(68.709)	(25.218)	(14.926)	(3.396)	(4.512)	(10.057)
Cash and cash equivalents	16.339	19.487	9.337	1.449	5.990	14.637
Secured bank loans	(11.082)	0	0	0	0	0
Forward exchange contracts	54.054	(45.748)	(14.820)	0	(11.862)	(14.040)
Net statement of financial position exposure	(9.398)	(51.479)	(20.409)	(1.947)	(10.384)	(9.460)
Next 12 months forecast sales	273.482	221.278	82.080	18.793	40.847	27.688
Next 12 months forecast purchases	(358.773)	(122.137)	(3.317)	(10.094)	(5.954)	(19.443)
Net 12 months currency exposure	(94.689)	47.662	58.354	6.752	24.509	(1.215)

The following significant exchange rates of USD applied during the year:

	Average rate		**Year-end spot rate**	
	2016	**2015**	**2016**	**2015**
ISK	0,0083	0,0076	0,0088	0,0077
EUR	1,11	1,11	1,05	1,09
GBP	1,36	1,53	1,24	1,48
CAD	0,76	0,78	0,75	0,72
DKK	0,15	0,15	0,14	0,15
SEK	0,12	0,12	0,11	0,12

33. contd.:

Sensitivity analysis

A 10% strengthening of the USD against the following currencies at 31 December would have increased (decreased) post-tax equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

2016	**Equity**	**Profit or loss**
ISK	(7.022)	2.442
EUR	2.526	290
GBP	1.997	415
DKK	1.384	(1.339)
SEK	1.742	(37)
CAD	2.551	463
2015		
ISK	752	5.076
EUR	4.118	458
GBP	1.633	447
DKK	156	156
SEK	831	(118)
CAD	757	(366)

A 10% weakening of the USD against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The fair value of a fixed rate instrument will fluctuate because of changes in market interest rates. The cash flow of variable rate instruments will also fluctuate with changes in market interest rates. The Group follows a policy of hedging 40-80% of the net interest rate cash flow exposure of long-term financing with up to a 5-year horizon. This is achieved by using fixed rate loans and fixed for floating swap contracts.

At the reporting date the interest rate profile of the Group´s interest bearing financial instruments was as follows:

	Carrying amount	
	2016	**2015**
Fixed rate instruments		
Financial assets	3.230	2.945
	3.230	2.945
Effect of derivatives	20.124	(29.742)
	23.354	(26.797)
Variable rate instruments		
Financial assets	246.563	210.824
Financial liabilities	(165.209)	(22.005)
	81.354	188.819

33. contd.:

Fair value sensitivity analysis for fixed rate instruments

The Group designates derivatives for the purpose of fuel, fx and interest rate hedging as hedging instruments under a fair value hedge accounting model. Interest rate changes affect the fixed rate instruments carrying amount through equity.

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts stated below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

31 December 2016	**100 bp increase**	**100 bp decrease**
Fixed rate instruments	(63)	66
Effects of derivatives	(81)	82
Fair value sensitivity (net)	(144)	148
31 December 2015		
Fixed rate instruments	(58)	60
Effects of derivatives	118	(120)
Fair value sensitivity (net)	61	(60)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts stated below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

31 December 2016	**100 bp increase**	**100 bp decrease**
Variable rate instruments	651	(651)
Cash flow sensitivity (net)	651	(651)
31 December 2015		
Variable rate instruments	1.511	(1.511)
Cash flow sensitivity (net)	1.511	(1.511)

Capital management

The Board‘s policy is to maintain a strong capital base for the benefit of investor, creditor and market confidence and to sustain future development of the business. The policy is to hold in cash and other highly liquid assets the equivilant of three months operating cost of which 30% of the benchmark can be in the form of unused lines of credit. Furthermore according to the policy the equity ratio shall not be less than 35%.

34. Financial instruments and fair values

The table shows the carrying amounts and fair values of financial assets and liabilities. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Derivatives, included in loans and receivables	20.560	20.560	3.104	3.104
Short term investments	23.236	23.236	19.533	19.533
Unsecured bond issue	(184.187)	(189.963)	(34.678)	(33.438)
Secured loans	(58.195)	(58.138)	(30.852)	(30.769)
Derivatives, included in payables and prepayments	(436)	(436)	(33.075)	(33.075)
Total	(199.022)	(204.741)	(75.968)	(74.645)

Fair value hierarchy:

The table below analyses the fair value of assets and liabilities and their levels in the fair value hierarchy:

31 December 2016	Level 1	Level 2	Level 3	Total
Derivatives, included in loans and receivables		20.560		20.560
Short term investments	23.236			23.236
Unsecured bond issue			(189.963)	(189.963)
Secured loans			(58.138)	(58.138)
Derivatives, included in payables and prepayments		(436)		(436)
Total	23.236	20.124	(248.101)	(204.741)
31 December 2015				
Derivatives, included in loans and receivables		3.104		3.104
Short term investments	19.533			19.533
Unsecured bond issue			(33.438)	(33.438)
Secured loans			(30.769)	(30.769)
Derivatives, included in payables and prepayments		(33.075)		(33.075)
Total	19.533	(29.971)	(64.207)	(74.645)

The basis for determining the levels is disclosed in note 5.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate based on government bonds.

The fair value of interest rate swaps is based on broker quotes. If not available the fair value is based on the discounted cashflow difference of the contratual fixed interest payment and the floating interest receivable.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entities and counterparties when appropriate.

35. Off-balance sheet items

Leases as lessee

As a lessee the Group has in place operating leases for storage facilities, hotels, equipment and fixtures for its operations, the longest until the year 2041. The Group has also in place operating leases for aircraft with duration from 1,4 years to 6,25 years. During the year USD 35.1 million was recognised as an expense in profit or loss in respect of operating leases (2015: USD 35.0 million). At year end 2016 the leases are payable as follows in nominal amounts for each year:

2016	Real estate	Aircraft	Other	Total
In the year 2017	13.281	16.761	10.067	40.109
In the year 2018	16.794	15.225	3.049	35.068
In the year 2019	19.922	9.024	3.333	32.279
In the year 2020	19.694	7.624	3.003	30.321
In the year 2021	18.961	2.994	2.440	24.395
Subsequent	231.271	1.830	33.165	266.266
Total	319.923	53.458	55.057	428.438
2015				
In the year 2016	14.813	19.688	6.111	40.612
In the year 2017	16.522	15.663	1.968	34.153
In the year 2018	21.017	13.761	2.249	37.027
In the year 2019	20.778	7.560	2.242	30.580
In the year 2020	20.871	6.160	2.298	29.329
Subsequent	277.594	1.530	33.520	312.644
Total	371.595	64.362	48.388	484.345

The aircraft lease payments consist of regular lease payments excluding maintenance reserves.

36. Leases as lessor

As a lessor the Company leases aircraft on wet, dry and various other terms, both on short and long term leases. Lease income for the year amounted to USD 84.6 million (2015; USD 83.4 million). Contracted leases at year end were as follows:

	2016	2015
In the year 2016	-	63.274
In the year 2017	72.138	51.619
In the year 2018	77.036	51.511
In the year 2019	33.231	19.777
In the year 2020	29.146	13.559
In the year 2021	11.142	5.152
Total	222.693	204.892

37. Guarantees

IG Invest, a former subsidiary of the Company, had an agreement with Boeing for the purchase of one Boeing 787 Dreamliner aircraft to be delivered in 2017. Despite the disposal of IG Invest, Icelandair Group was a guarantor for the capital commitments. In 2016 the Company reached an agreement with Boeing where the aircraft is scheduled to be sold to a third party and the Company is relieved of its commitments.

38. Capital commitments

In 2013 Icelandair Group and Boeing signed an agreement for the purchase of sixteen 737 MAX8 and 737 MAX9 aircraft with an option to purchase additional eight aircraft. The delivery of the first aircraft is scheduled in the first half of 2018. The commitment for all sixteen aircraft was valued at USD 1.6 billion at Boeing list prices when the agreement was finalized. The Company received acceptable discounts which, due to confidentiality agreements, cannot be disclosed. Prepayments according to the agreement will be made over the construction period. The acquisition will be funded by internal resources and from aviation finance products.

The delivery plan is as follows:

	2018	2019	2020	2021
Boeing 737 MAX8	3	3	2	1
Boeing 737 MAX9		3	3	1
Total	3	6	5	2

39. Related parties

Identity of related parties

The Group has a related party relationship with its shareholders with significant influence, subsidiaries, associates, and with its directors and executive officers.

Transactions with management and key personnel

Salaries and benefits of management for their service to Group companies and the number of shares in the Company held by management are specified below. Salaries and benefits are presented in ISK, rounded to nearest thousand.

Board of Directors:	2016 Salaries and benefits ISK	Number of shares held at year-end 2016 in thousands	2015 Salaries and benefits ISK	Number of shares held at year-end 2015 in thousands
Sigurður Helgason, Chairman of the Board	8.750	14.000	8.100	14.000
Ásthildur Margrét Otharsdóttir	4.850		4.500	
Katrín Olga Jóhannesdóttir	6.500	13	6.000	413
Magnús Magnússon	4.080		4.500	
Úlfar Steindórsson	6.625		6.150	
Key employees:				
Björgólfur Jóhannsson CEO of Icelandair Group hf.	54.002	1.400	53.619	1.300
Eight MD's of Group companies and CFO of Group	297.950	1.111	273.181	6.111

Included in the listing above of shares held by management and directors are shares held by companies controlled by them.

Transaction with associates

During the year 2016 the Group purchased services from associates for USD 0.1 million (2015: USD 0.1 million). The Group's revenues were USD 0.1 million from associates (2015: USD 0.1 million). Transactions with associates are priced on an arm's length basis.

Transaction with shareholders

There are no shareholders with significant influence at year end 2016. Companies which members of the Board and key employees control have been identified as being thirteen. These companies have been identified as related. Transactions with them consist of purchase and sale of services in the ordinary course of business on an arm's length basis. Total purchases in 2016 from these entities amounted to USD 0.1 million (2015: USD 0.1 million). Total sales amounted to USD 0.1 million (2015: USD 0.1 million).

40. Reassessment of taxes

In 2015 the Internal Revenue Board issued a ruling disallowing the Company to recognize for tax purposes certain interest expenses on loans that were transferred to the Company in a reverse acquisition in 2006. In 2016 the management decided not to appeal the ruling and the effect, USD 8.0 million, has been recognized and is included in the income tax expense for the year.

41. Litigations and claims

The Icelandic Competition Authority (ICA) is investigating Icelandair's alleged predatory pricing in 2012-13 which could be considered as a breach of Article 11 of the Icelandic Competition Act. If the investigation will conclude that Icelandair had a dominant position in the market, and abused its position by predatory pricing, the ICA could lay an administrative fine on Icelandair for the alleged breach of the Competition Act. The ICA's decision may be appealed to the Icelandic Competition Appeals Committee. The Company's management is of the opinion that Icelandair's pricing in 2012-13 was fully compliant with the Competition Act.

42. Group entities

The Company held twelve subsidiaries at year end 2016 which are all included in the consolidated financial statements. They are as follows:

	Ownership interest	
	2016	**2015**
Route network:		
A320 ehf.	100%	100%
Air Iceland ehf.	100%	100%
Feria ehf.	100%	100%
Icelandair ehf.	100%	100%
Icelandair Cargo ehf.	100%	100%
Loftleiðir - Icelandic ehf.	100%	100%
Tourism services:		
Iceland Travel ehf.	100%	100%
Icelandair Hotels ehf.	100%	100%
Shared services:		
Fjárvakur - Icelandair Shared Services ehf.	100%	100%
IceCap Ltd., Guernsey	100%	100%
Iceeignir ehf.	100%	100%
IGS ehf.	100%	100%

The subsidiaries further own fourteen subsidiaries that are also included in the consolidated financial statements. Four of those have non-controlling shareholders.

43. Statement of cash flows

Other operating items in the statement of cash flows are specified as follows:

	2016	2015
Expensed deferred cost	8.418	6.874
Exchange rate difference and indexation of liabilities and assets	4.820	455
Gain on the sale of operating assets	(782)	(1.529)
Gain on sale of investments	(94)	0
Share in profit of associates	(957)	(459)
Income tax	8.920	10.870
Total other operating items in the statement of cash flows	20.325	16.211

44. Net change in operating assets and liabilities in the statement of cash flows is specified as follows:

Inventories, (increase) decrease	(3.800)	3.639
Trade and other receivables, increase	(9.573)	(3.948)
Trade and other payables, (decrease) increase	(2.219)	22.762
Deferred income, increase	13.815	11.423
Net change in operating assets and liabilities in the statement of cash flows	(1.777)	33.876

Additional cash flow information:

Interest paid	5.267	7.947
Interest received	3.298	2.849
Taxes paid	30.139	8.880

45. Ratios

The Group's primary ratios at year end are specified as follows:

Current ratio	0,92	0,80
Equity ratio	0,44	0,47
Intrinsic value of share capital	14,00	11,25

46. Significant accounting policies

The accounting policies set out in this note have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

a. Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated statements from the date on which control commences until the date on which control ceases. When the Group looses control over subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other compnonents of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(ii) Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of associates, until the date on which significant influence ceases.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Currency exchange

(i) Currency transactions

Transactions in currencies other than functional currencies (foreign currencies) are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective (see (iii) below), or qualifying cash flow hedges to the extent the hedge is effective, which are recognised in other comprehensive income.

(ii) Subsidiaries with other functional currency

Assets and liabilities of foreign operations and subsidiaries with functional currency in other than USD, including goodwill and fair value adjustments arising on acquisitions, are translated to USD at exchange rates at the reporting date. Income and expenses are translated to USD at exchange rates at the dates of the transactions. Currency differences arising on translation are recognised in other comprehensive income. When an operation is disposed of, in part or in full, the relevant amount in the currency translation reserve within equity is transferred to profit or loss as part of the profit or loss on disposal.

Currency differences are recognised in other comprehensive income, and presented in the translation reserve in equity. However, if the operation is not a wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to the non-controlling interests.

46. contd.:

c. Financial instruments

(i) **Non-derivative financial assets**

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets, including assets designated at fair value through profit or loss, are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein which takes into account any dividend income, are recognised in profit or loss.

Financial assets classified as held-for-trading comprise marketable securities actively managed by the Group's treasury department to address short-term liquidity needs.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise restricted cash and cash equivalents and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits and marketable securities with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

46. contd.:

(ii) **Non-derivative financial liabilities**

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities including liabilities designated at fair value through profit or loss are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings and trade and other payables.

(iii) **Share capital**

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Repurchase and reissue of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

(iv) **Derivative financial instruments, including hedge accounting**

The Group holds derivative financial instruments to hedge its foreign currency, fuel price and interest rate risk exposures (see note 34). Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below. The Group holds no trading derivatives.

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that ultimately could affect reported profit or loss.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period during which the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified in profit or loss.

46. contd.:

Other non-trading derivatives
When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

d. Operating assets

(i) Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of operating assets have different useful lives, they are accounted for as separate items (major components) of operating assets.

Any gain and loss on disposal of an item of operating assets (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Aircraft and flight equipment

Aircraft and flight equipment, e.g. aircraft engines and aircraft spare parts, are measured at cost less accumulated depreciation and accumulated impairment losses. When an aircraft is acquired the purchase price is divided between the aircraft itself and engines. Aircraft is depreciated over the estimated useful life of the relevant aircraft until a residual value is met. Engines are depreciated according to actual usage based on cycles flown. When an engine is overhauled the cost of the overhaul is capitalised and the remainder of the cost of the previous overhaul that has not already been depreciated, if any, is expensed in full.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

(iv) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Items of operating assets are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component unless other systematic method is considered appropriate. Leased assets are depreciated over the shorter of the lease term or their useful lives. The estimated useful lives for the current and comparative periods are as follows:

	Useful life
Aircraft and flight equipment	3-17 years
Engines	Cycles flown
Buildings	17-50 years
Other property and equipment	3-20 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

46. contd.:

e. Intangible assets and goodwill

(i) **Goodwill and other intangible assets with indefinite useful lives**

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

Goodwill, trademarks and airport slots with indefinite useful lives are stated at cost less accumulated impairment losses.

(ii) **Other intangible assets**

Other intangible assets acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative years are as follows:

	Useful life
Software	3 years
Other intangible assets	6-10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iii) **Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

f. Leased assets

All leases are operating leases and the leased assets are not recognised in the Group's statement of financial position.

g. Inventories

Goods for resale and supplies are measured at the lower of cost and net realisable value. The cost of inventories is based on first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

46. contd.:

h. Impairment

(i) **Non-derivative financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events has occurred after the initial recognition of the asset, and that loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes:
Default or delinquency by a debtor;
Restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
Indications that a debtor or issuer will enter bankruptcy;
Adverse changes in the payment status of borrowers or issuers;
The disappearance of an active market for a security because of financial difficulties; or
Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) **Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangibles assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respet of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group of units) on a pro rata basis.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

46. contd.:

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Overhaul commitments relating to aircraft under operating lease

With respect to the Group´s operating lease agreements, where the Group has a commitment to maintain the aircraft, provision is made during the lease term for the obligation based on estimated future cost of major airframe and certain engine maintenance checks by making appropriate charges to the profit or loss calculated by reference to the number of hours or cycles operated.

Provisions are entered into the statement of financial position among non-current and current payables, as applicable.

j. Deferred income

Sold unused tickets, fair value of unutilized frequent flyer points and other prepayments are presented as deferred income in the statement of financial position.

Icelandair's frequent flyer program

Frequent flyer points earned or sold are accounted for as a liability on a fair value basis of the services that can be purchased for the points. The points are recognized as revenue when they are utilized or when they expire.

k. Operating income

(i) Transport revenue

Passenger ticket sales are not recognised as revenue until transportation has been provided. Sold refundable documents not used within twelve months from the month of sale are recognised as revenue. Non-refundable documents are recognized as revenue two months after expected transport if not used. Revenue from mail and cargo transportation is recognised when transportation has been provided.

(ii) Customer loyalty programmes

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits (frequent flyer points) and other components of the sale. Awards can also be generated through transportation services supplied by the Group. Through transportation services the amount allocated to the points is estimated by reference to the fair value of the services for which they could be redeemed, since the fair value of the points themselves is not directly observable. The fair value of the services is calculated taking into account the expected redemption rate and timing of the redemptions. The amounts are deferred and revenue is recognised only when the points are redeemed and the Group has fulfilled its obligations to provide the services. The amount of revenue recognised in those circumstances is based on the number of points that have been redeemed in exchange for services, relative to the total number of points that is expected to be redeemed.

(iii) Aircraft and aircrew lease

Revenue from aircraft and aircrew lease is recognised in profit or loss when the service has been provided.

46. contd.:

(iv) **Other operating revenue**

Revenue includes revenue from tourism, sales at airports and hotels, maintenance service sold and other revenue. Revenue is recognised in profit or loss when the service has been provided or sale completed by delivery of products.

Gain on sale of operating assets is recognised in profit or loss when the risks and rewards of ownership are transferred to the buyer.

l. Employee benefits

(i) **Short-term employee benefits**

Short-term employee benefits are expensed when the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) **Defined contribution plans**

Obligations for contributions to defined contribution plans are epensed when the related service is provided.

m. Lease payments

Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

n. Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group´s right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of discounts on provisions, foreign currency losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether currency movements are in a net gain or net loss position.

o. Income tax

Income tax comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is expected tax payable on taxable income for the year using tax rates enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that do not affect accounting, or taxable profit or differences relating to investment in subsidiaries.

46. contd.:

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date.

p. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for treasury shares held, for the effects of all dilutive potential ordinary shares.

q. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The major revenue-earning assets of the Group is the aircraft fleet, the majority of which is registered in Iceland. Since the Group's aircraft fleet is employed flexibly across its route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

Inter-segment pricing is determined on an arm's length basis.

Segment results, reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, and income tax assets and liabilities.

47. Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and drecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces exisiting revenue recognition guidance, including IAS 18 *Revenue* , IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes* . IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adotpion permitted.

In January 2016, the IASB issued IFRS 16 Leases - realising its long-standing goal of bringing leases on-balance sheet for lessees. The new standard takes effect in January 2019. Early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted. IFRS 16 will have substantial effect on the Group´s balance sheet as all leasing commitments exceeding 12 months will be recognized in the balance sheet at a discounted value.

The Group is assessing the potentioal impact on its consolidated financial statements resulting from the application of IFRS 9, IFRS 15 and IFRS 16.

In addition a number of new or amended standards are effective for annual periods beginning after 1 January 2017 but are not expected to have a significant impact on the Group´s consolidated financial statements.

Corporate Governance Statement

The framework

The guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers, along with the Company's Articles of Association, and rules for Issuers of Securities listed on the NASDAQ OMX Iceland, make up the framework for Icelandair Group's Corporate Governance practices. The Company's Articles of Association are on the Company's website and the guidelines and the rules for Issuers are on the website of NASDAQ OMX Iceland.

The Company complies in all main respect to the rules mentioned above. The Company however does not have a Nomination Committee as the Board of Directors has not seen the need for it. No government organization has found the Company to be in breach with any rule or regulation regarding corporate governance.

In 2012 The Iceland Chamber of Commerce, the Confederation for Icelandic Employers and Nasdaq OMX Iceland hf. granted the Company a recognition for "Exemplary in corporate governance". The aim with the recognition is to increase credibility and transparency of Icelandic companies' corporate governance with respect to shareholders and interested parties.

Internal audit and risk management

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The committee shall oversee the annual accounts of the Company and the Group's consolidated accounts. The committee is responsible for evaluation of the independence and the eligibility of both the Company´s auditor and auditing firm. The committee shall make suggestions to the Board of Directors regarding the selection of the Company´s auditor. The Audit Committee held ten meetings in 2016.

Audit Commitee:
Katrín Olga Jóhannesdóttir, Chairman
Ásthildur Margrét Otharsdóttir
Magnús Magnússon

Values and code of ethics and corporate responsibility

The company's values are:
WE CARE for our customers, employees, environment and shareholders.
WE THINK CLIENTS through consistency, reliability, clear product alternatives and friendly service.
WE DRIVE RESULTS via teamwork, shared information and values, accountability and profitability.

On 25 May 2009 the Board of Directors approved a Code of Ethics that was amended on 5 January 2011. The Code of Ethics is accessible to all Company's employees through the Company's intranet, MyWork.

Compensation Committee

The purpose of the Compensation Committee is to avoid placing the Company's management in control of their own remuneration and, furthermore, to ensure that the management's remuneration is structured so as to serve the long-term interests of shareholders. The main tasks of the Compensation Committee are policy making with respect to the management's performance related bonuses, including stock options. The Committee conducts evaluations of management remuneration and monitors the management's acquisition of stock in the Company. The Compensation Committee meets on average four times a year.

Compensation Committee
Sigurður Helgason, Chairman
Úlfar Steindórsson

The Board of Directors and Executive Committee

Board of Directors

Sigurður Helgason, Chairman

Sigurður Helgason was born in 1946. He was President & CEO of Flugleidir/FL-Group/Icelandair 1985 - 2005. He was Director of Cash Management 1974-1980, Senior Vice-President of Finance 1980-1983 and General Manager of The Americas 1983-1985 for Flugleidir/Icelandair. He was Chairman of the Board of The Icelandic International Development Fund 2005-2008. He is the Chairman of the Icelandair Special Children Travel Fund since 2005. He was a member of the IATA board of Govenors 2004/2005. He graduated with a MBA degree from The University of North Carolina, Chapel Hill, USA in 1973 and a Cand. Oecon. degree from the University of Iceland in 1971. He joined the Board on 6 August 2009.

Úlfar Steindórsson, Deputy Chairman

Úlfar Steindórsson was born in 1956 and is CEO and Chairman of Toyota in Iceland ehf. and Jú ehf. He was CEO of Primex ehf in Siglufjordur from 2002-2004, and CEO of the New Business Venture Fund from 1999-2002. Úlfar is chairman of the board of Eignarhaldsfélagið Bifreiðar ehf., Bifreiðainnflutningur ehf., Bílaútleigan ehf., Okkar bílaleiga ehf., and TK bílar ehf. He is a Board member of Toyota á Íslandi ehf, Króksslóð ehf, TMH Iceland ehf, AB 257 ehf, UK fjárfestingar ehf, Johan Rönning hf, S.Guðjónsson ehf., Skorri ehf., My Car ehf. and UK fjárfestingar ehf. Úlfar holds a Cand. Oecon degree from the University of Iceland and an MBA from Virginia Commonwealth University. He joined the Board on 15 September 2010.

Ásthildur Margrét Otharsdóttir

Ásthildur was born in 1968 and is an independent management consultant with prior business experience as Global Director of Treasury and Corporate Development at Össur hf., Senior Account Manager at Kaupthing Bank hf. and Management Consultant at Accenture in Copenhagen. She is Chairman of the Board of Directors of Marel hf. and Frumtak 2 Venture Fund. Ásthildur is a member of the Council of the University of Iceland and the Court of Arbitration of the Icelandic Chamber of Commerce. Ásthildur has an MBA degree from the Rotterdam School of Management, Erasmus University and a Cand. Oecon degree from the University of Iceland. She joined the Board on 23 March 2012.

Katrín Olga Jóhannesdóttir

Katrín Olga Jóhannesdóttir was born in 1962 and is the former Chief Strategy Officer of Skipti hf. and the current Chairman and shareholder of Já hf. Before that she was VP for sales and marketing and VP for residential markets at Síminn hf. Prior to that she held a position as the Managing Director of Navision Iceland and was a management consultant at VSO. Katrín Olga currently serves on the Boards of Directors of Ölgerðin hf., the Iceland Chamber of Commerce and Njála ehf. Having previously served on the Boards of the Central Bank of Iceland., Sirius IT and SkjáMiðlar. She holds a Cand. Oecon degree from the University of Iceland and an M.Sc. in Business Economics from Odense University. She joined the Board on 6 August 2009.

Magnús Magnússon

Magnús has been employed as a division manager at LBI hf. since early 2009, having previously worked for Búnadarbankinn and the financing company Lýsing following a period of self-employment from 2003 to year-end 2008. Magnús currently serves on the Boards of Directors of Lýsi hf. and the manufacturing and contracting company Loftorka in Borgarnes, as well as several subsidiaries of LBI hf. Magnús holds a degree in business economics from the University of Iceland and a Masters Degree in international business from Norges Handelshøyskole. Magnús has been a reserve member of Icelandair Group‘s Board of Directors since 2009 and a member of the Board since fall 2014.

Executive committee

Björgólfur Jóhannsson, president and CEO

Björgólfur was born in 1955 and joined Icelandair Group on 15 January 2008. Before joining Icelandair Group, Björgólfur was the CEO of Icelandic Group hf. from March 2006. From 1992-1996 Björgólfur was the CFO of UA in Akureyri. He became the CEO of Síldarvinnslan hf. in 1999 and served as the Director of Innovation and Development at Samherji hf. from 1996, having worked as a chartered accountant for two auditing firms from 1980. Björgólfur served as the Chairman of the Board of the Federation of Icelandic Fishing Vessel Owners from 2003-2008. Björgólfur is the Chairman of the Conferderation of Icelandic Employers and a Board member of the Iceland Chamber of Commerce. He graduated with a degree in Business Administration from the University of Iceland in 1983 and became a chartered accountant in 1985.

Bogi Nils Bogason, CFO
Birkir Hólm Guðnason, CEO of Icelandair
Magnea Þórey Hjálmarsdóttir, Managing Director of Icelandair Hotels

Board of Directors

The Company's Board of Directors exercises the supreme authority in the Company's affairs between shareholders' meetings, and it is entrusted with the task of ensuring that the organisation and activities of the Company's operation are at all times in correct and proper order.

The Board of Directors is instructed in the Company's Articles of Association to appoint a President and CEO for the Company and decide the terms of his or her employment. The Board of Directors and President and CEO are responsible for the management of the Company.

The Company's Board of Directors must at all times ensure that there is adequate supervision of the Company's accounts and the safeguarding of its assets and shall adopt working procedures in compliance with the Companies Act. Only the Board of Directors may assign powers of procuration on behalf of the Company. The signatures of the majority of the members of the Board are required to bind the Company. The President and CEO has charge of the day-to-day operation of the Company and is required in his work to observe the policy and instructions set out by the Company's Board of Directors. Day-to-day operation does not include measures which are unusual or extraordinary. Such measures can only be taken by the President and CEO with the specific authorization of the Board of Directors, unless it is impossible to await the decision of the Board without seriously disadvantaging the operation of the Company. In such instances, the President and CEO is required to consult with the Chairman of the Board, if possible, after which the Board of Directors must immediately be notified of the measures. The President and CEO shall ensure that the accounts and finances of the Company conform to the law and accepted practices and that all assets belonging to the Company are securely safeguarded. The President and CEO is required to provide the members of the Board of Directors and Company auditors with any information pertaining to the operation of the Company which they may request, as required by law.

The Company's Board of Directors consists of five members elected at the annual general meeting for a term of one year. Those who intend to stand for election to the Board of Directors must inform the Board in writing of their intention at least five days before the annual general meeting, or extraordinary shareholders' meeting at which elections are scheduled. Only those who have informed the Board of their candidacy are eligible.

The Board of Directors elects a Chairman and Deputy Chairman from its members, and otherwise allocates its obligations among its members as needed. The Chairman calls Board meetings. A meeting must also be held if requested by a member of the Board of Directors or the President and CEO. Meetings of the Board are valid if attended by a majority of its members. However, important decisions shall not be taken unless all members of the Board have had an opportunity to discuss the matter, if possible. The outcome of issues is decided by force of vote, and in the event of an equality of votes, the issue is regarded as rejected. The President and CEO attends meetings of the Board of Directors, even if he or she is not a member of the Board, and has the right to participate in discussions and submit proposals unless otherwise decided by the Board in individual cases. A book of minutes is kept of proceedings at meetings and must be signed by participants in the meeting. A Board member who disagrees with a decision made by the Board of Directors is entitled to have his or her dissenting opinion entered in the book of minutes. The same applies to the President and CEO. The Chairman is responsible for the Board's relations with the shareholders and he shall inform the Board on the views of the shareholders.

On 12 September 2007 the Board of Directors approved Rules on Working Procedures for the Board of Directors that was emended on 10 August 2012. The Rules on Working Procedures are accessible to the Board of Directors and the management through the Board's intranet, Coredata. In accordance with article 14 of the Rules on Working Procedures the Board of Directors must annually evaluate its work, size, composition and practices, and must also evaluate the performance of the CEO and others responsible for the day-to-day management of the Company and its development. The annual performance assessment is intended to improve working methods and increase the efficiency of the Board. The assessment entails e.g. evaluation of the strengths and weaknesses of the Board's work and practices and takes into consideration the work components which the Board believes may be improved.

The Board of Directors elects the members of the two sub-committees; the Compensation Committee and the Audit Committee. The sub-committees adhere to the Rules on Working Procedures. The Board of Directors convened eighteen times in the year and all Board Members attended almost all meetings. All the Members of the Board of Directors are independent from the Company, except Ásthildur Margrét Otharsdóttir. All Board members were independent of the Company's major shareholders in 2016.

Non-Financial Reporting

About Icelandair Group ehf.

Icelandair Group operates in the international airline and tourism sectors, with Iceland as the focal point of its international Route Network. Icelandair Group‘s business concept is built on Icelandair‘s Route Network and on marketing Iceland as a year-round destination. In addition to the international passenger flights operated by Icelandair, the Group has extensive interests in most other parts of Icelandic tourism and aviation, including hotel chains, travel agencies, regional airline and cargo, support services and ground handling and technical services, in addition to its leasing and charter operations.

Icelandair Group and Society

The implementation of a sustainability policy is most likely to be successful if the policy is directly linked to the Company’s business strategy. That is how we contribute best to our society.

Icelandair Group is a part of the Icelandic society. Icelandair Group is proud of its role in the Icelandic community and continues to seek new opportunities to expand its ties to society at large. That is how the Group energises the power of the Icelandic tourism industry for the benefit of Iceland as a nation.

The Company focuses on creating sustainable value for its stakeholders by integrating into its business model a wide range of efforts to ensure social responsibility.

Environment

Minimize our impact on the environment by setting measurable targets, raising awareness and benchmarking our performance to do better than before.

Employees

Commitment to our employees with extensive programmes for human resource development.

Society

Co-operate with society and ensure that the impact of our operations is beneficial through direct contributions and positive engagement with society at large.

Environment

Icelandair Group is an environmentally conscious company, committed to addressing its environmental responsibilities. We are dedicated to minimising the environmental impact of our operations, both globally and locally, by reducing emissions, conserving natural resources and optimising the use of sustainable energy and materials.

Icelandair Group’s environmental impact is not limited to flight operations. It also involves ground facilities, offices and maintenance areas. Our goal is to maximise the use of green energy and minimise waste in all operations by embracing sustainable solutions. In order to achieve this goal, Icelandair Group is completing the implementation of Environmental Management Systems for all Icelandair Group companies.

Icelandair Group’s Environmental Policy describes our approaches to protecting and preserving the environment. All Company employees are responsible for ensuring compliance with Company policy. Management at all Company subsidiaries and entities are adopting guidelines and procedures to comply with the Company’s environmental policy. Minimising the environmental impact of our operations is an important element of Icelandair Group‘s business plan. We are focused on keeping Icelandair Group green by means of sustainable practices and optimal use of the resources at our disposal. Icelandair Group is committed to minimising its impact on the environment by continuous improvement of the Company’s environmental policies, sustainable material use and disposal, conduct of business with environmentally friendly suppliers and adherence to environmental protection principles.

We recognise that even though the operations of our subsidiaries may vary, we share important principles. In addition to compliance with applicable laws and regulations, we show our continuing commitment by:

- Minimising our carbon footprint and raising awareness
- Reducing waste by increasing recycling
- Promoting responsible use of resources n Increasing the use of environment

We are committed to supporting continuous improvement by setting measurable targets, raising awareness and benchmarking our performance.

Employees

Icelandair Group seeks to attract talented and qualified personnel who can help the Company meet the challenges of the future while at the same time fitting into the existing corporate culture. We provide access for our employees to further development and training so that we can always select the best person for every job. We make every effort to improve the well-being of our employees, maintaining an attractive, yet challenging and demanding workplace, and enabling them to flourish and achieve their highest potential. Our HR strategy emphasises equality and non-discrimination and embraces diversity. We also train our employees in observing safety and security standards and we have in place detailed action plans designed to achieve our goals. We make sure that our employees are given equal opportunities to further their careers. Above all, we endeavour to make sure that all our employees feel they are part of a team. We regularly carry out work audit surveys among Icelandair Group employees, where we try to measure various indicators of how well our HR strategy is working. We regularly score high in job satisfaction and employee engagement, and in the latest survey, conducted this autumn, these factors showed higher scores than ever before.

Society

Icelandair Group and it's subsidiaries support a wide variety of community activities all year round. The main focus is on support for Icelandic sports, Icelandic music, the Icelandic tourist industry and the Special Children Foundation.

Anti-corruption and bribery policy

Our Anti-corruption and bribery policy establishes Icelandair Group‘s and all it‘s subsidiaries global standards regarding the prevention of corruption and bribery. It is our policy to conduct all our business in an honest and ethical manner and the integrity of each and every member of our staff serves to maintain the good reputation and trust of Icelandair Group. Our policy addresses bribery and corruption, facilitation payments, extortion and whistle-blowing.

The policy applies to the entire Icelandair Group workforce at all levels and grades (whether permanent, fixed-term or temporary), and all operations, subsidiaries and affiliates in all countries that we operate.

All persons, representing or performing services for or on behalf of Icelandair Group must comply with applicable anti-bribery and anti-corruption legislation and policies and Icelandair Group‘s Code of Conduct. Those who work for or on behalf of Icelandair Group will not be penalised in any way for business advantage lost due to adherence to this policy. Deviations or non compliance, including attempts to circumvent or manipulate this policy,may result in disciplinary action, including termination.

Responsibility

Further information about Icelandair Group´s Corporate Social Responsibility is published in the Company´s Annual Report as well as on the Company´s website, www.icelandairgroup.is.

Quarterly statements (unaudited)

Unaudited summary of the Group's operating results by quarters:

	Q1	Q2	Q3	Q4	Total
Year 2016					
Operating income	211.837	331.355	485.910	256.472	1.285.574
Operating expenses excluding depreciation	(210.083)	(277.467)	(324.160)	(254.019)	(1.065.729)
Operating profit bef. depr. (EBITDA)	1.754	53.888	161.750	2.453	219.845
Depreciation	(21.768)	(23.198)	(29.622)	(26.820)	(101.408)
Operating (loss) profit (EBIT)	(20.014)	30.690	132.128	(24.367)	118.437
Net finance (expense) income	(1.325)	2.132	(1.666)	1.576	717
Share of profit (loss) of associates	55	(58)	363	597	957
(Loss) profit before income tax	(21.284)	32.764	130.825	(22.194)	120.111
Income tax	4.288	(6.595)	(28.060)	(676)	(31.043)
(Loss) profit	(16.996)	26.169	102.765	(22.870)	89.068
Other comprehensive profit	9.175	22.647	9.562	8.198	49.582
Total comprehensive (loss) income	(7.821)	48.816	112.327	(14.672)	138.650
Working capital from (used in) operations	3.023	57.310	161.169	(10.701)	210.801
Net cash from (used in) operating activities	148.792	119.636	(19.933)	(39.471)	209.024
Net cash used in investing activities	(99.801)	(58.277)	(63.695)	(69.986)	(291.759)
Net cash (used in) from financing activities	(3.295)	(28.500)	(2.289)	147.727	113.643
Year 2015					
Operating income	186.075	294.212	429.446	229.966	1.139.699
Operating expenses excluding depreciation	(188.083)	(244.100)	(273.826)	(207.024)	(913.033)
Operating (loss) profit bef. depr. (EBITDA)	(2.008)	50.112	155.620	22.942	226.666
Depreciation	(17.011)	(21.872)	(23.869)	(21.074)	(83.826)
Operating (loss) profit (EBIT)	(19.019)	28.240	131.751	1.868	142.840
Net finance income (expense)	625	(317)	(1.378)	(2.006)	(3.076)
Share of profit (loss) of associates	90	0	381	(12)	459
(Loss) profit before income tax	(18.304)	27.923	130.754	(150)	140.223
Income tax	3.752	(5.558)	(27.611)	417	(29.000)
(Loss) profit	(14.552)	22.365	103.143	267	111.223
Other comprehensive profit (loss)	3.056	15.206	(4.695)	(15.371)	(1.804)
Total comprehensive (loss) income	(11.496)	37.571	98.448	(15.104)	109.419
Working capital from operations	1.164	49.611	157.406	3.079	211.260
Net cash from operating activities	117.687	86.724	4.085	36.640	245.136
Net cash used in investing activities	(37.611)	(34.559)	(60.265)	(87.507)	(219.942)
Net cash from (used in) financing activities	19.880	(20.716)	(2.868)	(10.616)	(14.320)