

Icelandair Group hf.
Condensed Consolidated
Interim Financial Statements
1 January - 30 June 2017

USD

Icelandair Group hf.
Reykjavíkurlugvöllur
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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 30 June 2017 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 30 June 2017 amounted to USD 23.6 million. Total comprehensive loss for the period was USD 31.2 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 516.7 million, including share capital in the amount of USD 39.5 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 six months ended 30 June 2017 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 six month period ended 30 June 2017, its assets, liabilities and consolidated financial position as at 30 June 2017 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 30 June 2017 and confirm them by means of their signatures.

Reykjavík, 27 July 2017.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board

Ásthildur M. Otharsdóttir

Georg Lúðvíksson

Katrín Olga Jóhannesdóttir

Ómar Benediktsson

CEO:

Björgólfur Jóhannsson

Consolidated Statement of Comprehensive Income for the period from 1 January to June 30 2017

	Notes	2017 1.4.-30.6.	2016 1.4.-30.6. *Restated	2017 1.1.-30.6.	2016 1.1.-30.6. *Restated
Operating income					
Transport revenue	6	272.684	246.987	421.740	388.845
Aircraft and aircrew lease		20.432	20.713	41.059	47.050
Other operating revenue	6	75.771	63.655	128.460	107.297
		<u>368.887</u>	<u>331.355</u>	<u>591.259</u>	<u>543.192</u>
Operating expenses					
Salaries and other personnel expenses		125.787	90.509	212.048	161.341
Aviation expenses		115.838	116.057	197.384	196.193
Other operating expenses		85.005	70.900	155.811	130.015
	7	<u>326.630</u>	<u>277.466</u>	<u>565.243</u>	<u>487.549</u>
Operating profit before depreciation and amortisation (EBITDA) ..		42.257	53.889	26.016	55.643
Depreciation and amortisation		<u>(30.850)</u>	<u>(23.198)</u>	<u>(56.737)</u>	<u>(44.966)</u>
Operating profit (loss) before net finance income (EBIT)		11.407	30.691	(30.721)	10.677
Finance income		6.302	3.223	7.768	3.026
Finance costs		<u>(4.343)</u>	<u>(1.092)</u>	<u>(7.753)</u>	<u>(2.220)</u>
Net finance income	8	1.959	2.131	15	806
Share of profit (loss) of associates, net of tax		61	(58)	531	(3)
Profit (loss) before tax		13.427	32.764	(30.175)	11.480
Income tax		<u>(2.171)</u>	<u>(6.595)</u>	<u>6.536</u>	<u>(2.307)</u>
Profit (loss) for the period		<u>11.256</u>	<u>26.169</u>	<u>(23.639)</u>	<u>9.173</u>
Other comprehensive income (loss):					
Foreign currency translation differences of foreign operations		8.256	(258)	9.010	3.522
Effective portion of changes in fair value of cash flow hedge, net of tax		<u>(2.628)</u>	<u>22.905</u>	<u>(16.583)</u>	<u>28.300</u>
Other comprehensive profit (loss) for the period		<u>5.628</u>	<u>22.647</u>	<u>(7.573)</u>	<u>31.822</u>
Total comprehensive profit (loss) for the period		<u>16.884</u>	<u>48.816</u>	<u>(31.212)</u>	<u>40.995</u>
Profit attributable to:					
Owners of the Company		11.198	26.077	(23.762)	9.095
Non-controlling interest		58	92	123	78
Profit (loss) for the period		<u>11.256</u>	<u>26.169</u>	<u>(23.639)</u>	<u>9.173</u>
Total Comprehensive profit (loss) attributable to:					
Owners of the Company		16.817	48.737	(32.103)	40.915
Non-controlling interest		67	79	891	80
Total comprehensive profit (loss) for the period		<u>16.884</u>	<u>48.816</u>	<u>(31.212)</u>	<u>40.995</u>
Profit (loss) per share:					
Basic profit (loss) per share in US cent per share		0,23	0,52	(0,48)	0,18
Diluted profit (loss) per share in US cent per share		0,23	0,52	(0,48)	0,18

* See note 4

The notes on pages 8 to 17 are an integral part of these interim consolidated financial statements.

Consolidated Statement of Financial Position as at 30 June 2017

	Notes	30.6.2017	31.12.2016
Assets			
Operating assets	9	642.836	602.615
Intangible assets and goodwill		181.118	174.704
Investments in associates		27.473	23.497
Deferred cost		32	63
Receivables and deposits		67.385	74.098
Non-current assets		918.844	874.977
Inventories		23.935	23.963
Trade and other receivables		211.561	139.280
Assets held for sale		6.940	4.148
Short term investments		24.070	23.236
Cash and cash equivalents		336.022	226.889
Current assets		602.528	417.516
Total assets		1.521.372	1.292.493
Equity			
Share capital		39.532	40.576
Share premium		140.519	154.705
Reserves	10	59.278	119.322
Retained earnings		276.120	253.223
Equity attributable to equity holders of the Company		515.449	567.826
Non-controlling interest		1.278	387
Total equity		516.727	568.213
Liabilities			
Loans and borrowings	11	233.836	196.722
Payables		15.935	13.289
Deferred tax liabilities		46.852	58.179
Non-current liabilities		296.623	268.190
Loans and borrowings	11	50.823	45.660
Trade and other payables		284.938	210.543
Deferred income		372.261	199.887
Current liabilities		708.022	456.090
Total liabilities		1.004.645	724.280
Total equity and liabilities		1.521.372	1.292.493

The notes on pages 8 to 17 are an integral part of these interim consolidated financial statements.

Consolidated Statement of Changes in Equity for the period from 1 January to 30 June 2017

	Attributable to equity holders of the Company					Non-con- trolling interest	Total equity
	Share capital	Share premium	Reserves	Retained earnings	Total		
1 January to 30 June 2016							
Equity 1.1.2016	40.576	154.705	1.400	259.746	456.427	104	456.531
Total comprehensive profit			31.820	9.095	40.915	80	40.995
Effects of profit or loss and dividend from subsidiaries			2.320	(2.320)			
Dividend (0.36 US cent per share) ...				(26.968)	(26.968)		(26.968)
Equity 30 June 2016	40.576	154.705	35.540	239.553	470.374	184	470.558
 1 January to 30 June 2017							
Equity 1.1.2017	40.576	154.705	119.322	253.223	567.826	387	568.213
Purchase of treasury shares	(1.044)	(14.186)			(15.230)		(15.230)
Total comprehensive loss			(8.341)	(23.762)	(32.103)	891	(31.212)
Effects of profit or loss and dividend from subsidiaries			(51.703)	51.703			
Dividend (0.10 US cent per share) ...				(5.044)	(5.044)		(5.044)
Equity 30 June 2017	39.532	140.519	59.278	276.120	515.449	1.278	516.727

Information on changes in reserves are provided in note 10.

The notes on pages 8 to 17 are an integral part of these interim consolidated financial statements.

Consolidated Statement of Cash Flows for the six months ended 30 June 2017

	Note:	2017	2016	2017	2016
		1.4.-30.6.	1.4.-30.6.	1.1.-30.6	1.1.-30.6
Cash flows from operating activities					
Profit (loss) for the period		11.256	26.169	(23.639)	9.173
Adjustments for:					
Depreciation and amortisation		30.850	23.198	56.737	44.966
Other operating items	18	(2.541)	7.943	(9.088)	6.194
Working capital from operations		39.565	57.310	24.010	60.333
Net change in operating assets and liabilities	19	51.236	62.326	192.288	208.095
Net cash from operating activities		<u>90.801</u>	<u>119.636</u>	<u>216.298</u>	<u>268.428</u>
Cash flows used in investing activities:					
Acquisition of operating assets		(35.647)	(92.116)	(80.407)	(148.102)
Proceeds from the sale of operating assets		148	478	308	478
Acquisition of intangible assets		(1.900)	(193)	(3.580)	(555)
Capitalised deferred cost		(101)	(8.016)	(941)	(8.386)
Non-current receivables, change		(12.421)	(4.953)	(41.657)	(7.870)
Marketable securities, change		(1.376)	46.523	(802)	6.357
Net cash used in investing activities		<u>(51.297)</u>	<u>(58.277)</u>	<u>(127.079)</u>	<u>(158.078)</u>
Cash flows (used in) from financing activities:					
Purchase of treasury shares		(5.211)	0	(15.230)	0
Dividend paid		0	(26.968)	(5.044)	(26.968)
Proceeds from non-current borrowing		0	700	40.000	700
Repayment of non-current borrowings		(2.310)	(2.232)	(6.005)	(5.527)
Proceeds from short term borrowings		1.105	0	3.383	0
Net cash (used in) from financing activities		<u>(6.416)</u>	<u>(28.500)</u>	<u>17.104</u>	<u>(31.795)</u>
Increase in cash and cash equivalents		33.088	32.859	106.323	78.555
Effect of exchange rate fluctuations on cash held		2.762	(259)	2.810	1.275
Cash and cash equivalents at beginning of the period		300.172	241.816	226.889	194.586
Cash and cash equivalents at 30 June		<u>336.022</u>	<u>274.416</u>	<u>336.022</u>	<u>274.416</u>

Information on interest paid and received are provided in note 20.

The notes on pages 8 to 17 are an integral part of these interim consolidated 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 six months ended 30 June 2017 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 2016 are available upon request from the Company's registered office at Reykjavíkurlugvöllur 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 required 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 2016.

These interim financial statements were approved for issue by the Board of Directors on 26 July 2017.

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 2016.

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 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.

Notes, contd.:

4. Changes in presentation

Hedge accounting

The Group has changed its 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 comparative numbers:

	2016		2016
	1.4.-30.6.		1.4.-30.6.
	Original	Change	Restated
Salaries and other personnel expenses	91.963	1.454	90.509
Aviation expenses	116.087	30	116.057
Net finance income (costs)	3.615	(1.484)	2.131

	2016		2016
	1.1.-30.6.		1.1.-30.6.
	Original	Change	Restated
Salaries and other personnel expenses	163.439	2.098	161.341
Aviation expenses	196.236	43	196.193
Net finance income (costs)	2.947	(2.141)	806

Notes, contd.:

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; 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 import and export 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 Connect is the regional airline that operates scheduled flights within Iceland and to Greenland and Scotland.

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 provide 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. 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
	1.1.-30.6.	1.1.-30.6.
<i>Revenues</i>		
North America	37%	37%
Iceland	27%	26%
West Continental Europe	12%	12%
Scandinavia	7%	8%
United Kingdom	8%	7%
Other	9%	10%
Total revenues	<u>100%</u>	<u>100%</u>

Notes, contd.:

5. contd.:

Reportable segments for the six months ended 30 June 2017

	Route network	Tourism services	Shared services	Total
External revenue	501.260	82.829	7.170	591.259
Inter-segment revenue	48.130	5.808	44.431	98.369
Segment revenue	549.390	88.637	51.601	689.628
Segment EBITDAR*	35.783	3.045	3.469	42.297
Operating lease expenses	(11.197)	(4.848)	(236)	(16.281)
Segment EBITDA	24.586	(1.803)	3.233	26.016
Finance income	3.439	21	14.989	18.449
Finance costs	(5.255)	(1.033)	(12.146)	(18.434)
Depreciation and amortisation	(50.652)	(2.656)	(3.429)	(56.737)
Share of profit of equity accounted investees	36	131	364	531
Reportable segment (loss) profit before tax	(27.846)	(5.340)	3.011	(30.175)
Reportable segment assets	1.046.372	77.552	570.594	1.694.518

Reportable segments for the six months ended 30 June 2016

External revenue	473.700	62.510	6.982	543.192
Inter-segment revenue	54.391	4.228	29.155	87.774
Segment revenue	528.091	66.738	36.137	630.966
Segment EBITDAR*	66.875	4.646	1.077	72.598
Operating lease expenses	(11.084)	(5.581)	(290)	(16.955)
Segment EBITDA	55.791	(935)	787	55.643
Finance income	4.706	25	3.775	8.506
Finance costs	(2.263)	(940)	(4.497)	(7.700)
Depreciation and amortisation	(42.174)	(1.616)	(1.176)	(44.966)
Share of profit of equity accounted investees	0	32	(35)	(3)
Reportable segment profit (loss) before tax	16.060	(3.434)	(1.146)	11.480
Reportable segment assets	981.483	63.953	269.666	1.315.102

*EBITDAR means EBITDA before operating lease expenses.

Notes, contd.:

5. contd.:

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities, and other material items

	2017 1.1.-30.6.	2016 1.1.-30.6.
Revenue		
Total revenue for reportable segments	689.628	630.966
Elimination of inter-segment revenue	(98.369)	(87.774)
Consolidated revenue	591.259	543.192

Profit or loss

Consolidated (loss) profit before tax	(30.175)	11.480
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Other material items	Reportable segment totals	Adjust- ments	Consoli- dated totals
1.1.-30.6.2017			
Segment EBITDAR	42.297		42.297
Segment EBITDA	26.016		26.016
Finance income	18.449	(10.681)	7.768
Finance costs	(18.434)	10.681	(7.753)
Depreciation and amortisation	(56.737)		(56.737)
Share of profit of associates	531		531
Capital expenditure	84.928		84.928
1.1.-30.6.2016			
Segment EBITDAR	72.598		72.598
Segment EBITDA	55.643		55.643
Finance income	8.506	(5.480)	3.026
Finance costs	(7.700)	5.480	(2.220)
Depreciation and amortisation	(44.966)		(44.966)
Share of loss of associates	(3)		(3)
Capital expenditure	157.043		157.043

Notes, contd.:

6. Operating income

Transport revenue is specified as follows:

	2017	2016	2017	2016
	1.4.-30.6.	1.4.-30.6.	1.1.-30.6	1.1.-30.6
Passengers	257.026	234.347	393.522	365.176
Cargo and mail	15.658	12.640	28.218	23.669
Total transport revenue	<u>272.684</u>	<u>246.987</u>	<u>421.740</u>	<u>388.845</u>

Other operating revenue is specified as follows:

Sale at airports and hotels	25.522	20.999	47.092	35.766
Revenue from tourism	36.522	28.668	56.325	44.971
Aircraft and cargo handling services	5.246	7.058	9.244	14.338
Maintenance revenue	1.097	751	1.749	1.122
(Loss) gain on sale of operating assets	(70)	305	0	305
Other operating revenue	7.454	5.874	14.050	10.795
Total other operating revenue	<u>75.771</u>	<u>63.655</u>	<u>128.460</u>	<u>107.297</u>

7. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	82.885	55.151	139.433	99.807
Salary-related expenses	24.310	18.712	40.133	32.464
Other personnel expenses	18.592	16.646	32.482	29.070
Total salaries and personnel expenses	<u>125.787</u>	<u>90.509</u>	<u>212.048</u>	<u>161.341</u>

Aviation expenses are specified as follows:

Aircraft fuel	60.484	61.035	98.341	95.159
Aircraft lease	5.238	5.543	10.813	10.961
Aircraft handling, landing and communication	31.863	29.205	52.149	48.848
Aircraft maintenance expenses	18.253	20.274	36.081	41.225
Total aviation expenses	<u>115.838</u>	<u>116.057</u>	<u>197.384</u>	<u>196.193</u>

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures	7.342	6.313	13.851	11.998
Communication	6.721	5.807	12.700	10.696
Advertising	6.730	6.415	15.220	13.935
Booking fees and commission expenses	16.209	13.364	32.307	28.728
Cost of goods sold	7.361	6.764	13.232	11.612
Customer services	8.831	6.590	15.017	11.930
Tourism expenses	22.731	18.233	35.448	26.545
Allowance for bad debt	360	224	536	599
Other operating expenses	8.720	7.190	17.500	13.972
Total other operating expenses	<u>85.005</u>	<u>70.900</u>	<u>155.811</u>	<u>130.015</u>

Notes, contd.:

8. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2017 1.4.-30.6.	2016 1.4.-30.6.	2017 1.1.-30.6	2016 1.1.-30.6
Interest income on bank deposits	511	499	664	887
Other interest income	1.076	407	1.535	739
Net foreign exchange gain	4.715	2.317	5.569	1.400
Finance income total	<u>6.302</u>	<u>3.223</u>	<u>7.768</u>	<u>3.026</u>
Interest expenses on loans and borrowings	4.026	856	7.209	1.778
Other interest expenses	317	236	544	442
Finance costs total	<u>4.343</u>	<u>1.092</u>	<u>7.753</u>	<u>2.220</u>
Net finance income	<u>1.959</u>	<u>2.131</u>	<u>15</u>	<u>806</u>

9. Operating assets

Acquisition of operating assets in the first six months of 2017 amounted to USD 84.9 million. Included is one Bombardier Q200 aircraft, interior equipment of aircraft, overhaul of own engines and aircraft spare parts in the amount of USD 55.9 million.

10. Equity

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Other reserves	Total reserves
Reserves 1.1.2016	(24.059)	25.459	0	1.400
Changes during the period	28.300	3.520	2.320	34.140
Reserves 30.6.2016	<u>4.241</u>	<u>28.979</u>	<u>2.320</u>	<u>35.540</u>
Reserves 1.1.2017	16.423	34.524	68.375	119.322
Changes during the period	(16.583)	8.242	(51.703)	(60.044)
Reserves 30.6.2017	<u>(160)</u>	<u>42.766</u>	<u>16.672</u>	<u>59.278</u>

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.

	30.6.2017	31.12.2016
Non-current loans and borrowings are specified as follows:		
Secured bank loans	60.995	58.195
Unsecured loans	223.664	184.187
	<u>284.659</u>	<u>242.382</u>
Current maturities	(50.823)	(45.660)
Total non-current loans and borrowings	<u>233.836</u>	<u>196.722</u>

Terms and debt repayment schedule:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance 30.6.2017	Total remaining balance 31.12.2016
Secured bank loans	USD	4,8%	2017-2024	16.494	21.082
Secured bank loans, indexed	ISK	4,3%	2025	1.934	1.728
Unsecured bond issue	USD	4,8%	2020-2021	212.185	172.527
Unsecured bond issue, indexed	ISK	5,7%	2023	11.479	11.660
Secured bank loans - short term	USD	5,1%	2017	3.395	0
Secured bank loans - short term	ISK	5,4%	2018	39.172	35.385
Total interest-bearing liabilities				<u>284.659</u>	<u>242.382</u>

Notes, contd.:

12. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	2017	2016
Repayments in 2017 (6 months)(2016: 12 months)	46.924	45.660
Repayments in 2018	5.682	5.585
Repayments in 2019	2.492	2.390
Repayments in 2020	26.287	26.175
Repayments in 2021	192.806	152.661
Subsequent repayments	10.468	9.911
Total loans and borrowings	284.659	242.382

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:

	30.6.2017		31.12.2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives, included in loans and receivables	0	0	20.560	20.560
Short term investments	24.070	24.070	23.236	23.236
Unsecured bond issue	(223.664)	(246.773)	(184.187)	(189.963)
Secured loans	(60.995)	(62.484)	(58.195)	(58.138)
Derivatives, included in payables and prepayments	0	0	(436)	(436)
Total	(260.589)	(285.187)	(199.022)	(204.741)

14. Off-balance sheet items

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 which last from 9 months to 5 years. At the end of June 2017 the leases are payable as follows in nominal amounts for each year:

	Real estate	Aircraft	Other	Total 30.6.2017
In Q3 - Q4 2017	17.013	10.266	6.078	33.357
In the year 2018	36.122	18.432	3.881	58.435
In the year 2019	27.915	12.936	3.552	44.403
In the year 2020	27.674	9.825	3.065	40.564
In the year 2021	27.158	2.994	2.702	32.854
Subsequent	355.908	1.830	36.725	394.463
Total	491.790	56.283	56.003	604.076

15. 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.

Notes, contd.:

16. Capital commitments

In February 2013 Icelandair Group and Boeing finalized 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.

An agreement for sale and leaseback of four Boeing of the 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 delivery plan is as follows:

	2018	2019	2020	2021
Boeing 737 Max 8	3	3	2	1
Boeing 737 Max 9		3	3	1
Total	3	6	5	2

17. Group entities

The Company held twelve subsidiaries at the end of June 2017. The subsidiaries included in the consolidated interim financial statements are as follows:

	Share
Route network:	
A320 ehf.	100%
Air Iceland Connect ehf.	100%
Feria ehf.	100%
Icelandair ehf.	100%
Icelandair Cargo ehf.	100%
Loftleiðir - Icelandic ehf.	100%
Tourism services:	
Iceland Travel ehf.	100%
Icelandair Hotels ehf.	100%
Shared services:	
Fjárvakur - Icelandair Shared Services ehf.	100%
IceCap Ltd., Guernsey	100%
Iceeignir ehf.	100%
IGS ehf.	100%

The subsidiaries further own fourteen subsidiaries that are included in the consolidated interim financial statements. Four of those have non-controlling shareholders.

18. Statement of cash flows

Other operating items in the statement of cash flows are specified as follows:

	2017	2016	2017	2016
	1.4.-30.6.	1.4.-30.6.	1.1.-30.6	1.1.-30.6
Expensed deferred cost	2.516	1.676	4.457	3.961
Exchange rate differences	(7.512)	(64)	(6.753)	228
Loss (gain) on sale of operating assets	345	(322)	275	(305)
Share in (profit) loss of associates	(61)	58	(531)	3
Income tax	2.171	6.595	(6.536)	2.307
Other operating items total	(2.541)	7.943	(9.088)	6.194

Notes, contd.:

19. Net change in operating assets and liabilities in the statement of cash flows is specified as follows:

	2017	2016	2017	2016
	1.4.-30.6.	1.4.-30.6.	1.1.-30.6	1.1.-30.6
Inventories, decrease (increase)	1.167	(1.182)	21	(1.415)
Trade and other receivables, (increase) decrease ...	(41.153)	39.045	(43.427)	(22.173)
Trade and other payables, increase	68.450	18.753	63.540	67.919
Deferred income, increase	22.772	5.710	172.154	163.764
Net change in operating assets and liabilities	<u>51.236</u>	<u>62.326</u>	<u>192.288</u>	<u>208.095</u>

20. Additional cash flow information:

Interest expenses paid	4.105	835	8.348	2.608
Interest income received	950	335	1.165	649

21. Ratios

The Group's primary ratios are specified as follows:

	30.6.2017	31.12.2016
Current ratio	0,85	0,92
Equity ratio	0,34	0,44
Intrinsic value of share capital	13,07	14,00

22. Significant accounting policies

The accounting policies and methods of computation applied in these 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 2016.

These 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.