

**Icelandair Group hf.**  
Condensed Consolidated  
Interim Financial Statements  
1 January - 30 September 2018

USD

Icelandair Group hf.  
Reykjavíkurlugvöllur  
101 Reykjavík  
Iceland  
Reg. no. 631205-1780

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## Endorsement and Statement by the Board of Directors and the CEO

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The condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 30 September 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, profit for the period from 1 January to 30 September 2018 amounted to USD 1.8 million. Total comprehensive loss for the period was USD 6.4 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 575.4 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 nine months ended 30 September 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 nine month period ended 30 September 2018, its assets, liabilities and consolidated financial position as at 30 September 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 30 September 2018 and confirm them by means of their signatures.

Reykjavík, 30 October 2018.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board

Ásthildur M. Otharsdóttir

Guðmundur Hafsteinsson

Heiðrún Jónsdóttir

Ómar Benediktsson

CEO:

Bogi Nils Bogason

## Consolidated Statement of Comprehensive Income for the period from 1 January to September 30 2018

	Notes	2018 1.7.-30.9.	2017 1.7.-30.9. *Restated	2018 1.1.-30.9.	2017 1.1.-30.9. *Restated
<b>Operating income</b>					
Transport revenue .....	7	406.491	415.579	874.343	843.502
Aircraft and aircrew lease .....		29.462	18.246	92.430	59.305
Other operating revenue .....	7	109.240	103.207	244.945	223.600
		<u>545.193</u>	<u>537.032</u>	<u>1.211.718</u>	<u>1.126.407</u>
<b>Operating expenses</b>					
Salaries and other personnel expenses .....		130.813	118.116	388.927	330.164
Aviation expenses .....		176.271	148.592	419.438	345.976
Other operating expenses .....		123.116	114.420	291.878	263.765
	8	<u>430.200</u>	<u>381.128</u>	<u>1.100.243</u>	<u>939.905</u>
<b>Operating profit before depreciation and amortisation (EBITDA)</b>		114.993	155.904	111.475	186.502
Depreciation and amortisation .....		<u>( 36.698)</u>	<u>( 34.291)</u>	<u>( 99.191)</u>	<u>( 91.028)</u>
<b>Operating profit before net finance (costs) income (EBIT)</b> .....		78.295	121.613	12.284	95.474
Finance income .....		1.027	4.487	2.391	12.255
Finance costs .....		<u>( 2.602)</u>	<u>( 4.090)</u>	<u>( 14.533)</u>	<u>( 11.843)</u>
<b>Net finance (costs) income</b> .....	9	<u>( 1.575)</u>	<u>397</u>	<u>( 12.142)</u>	<u>412</u>
Share of profit (loss) of associates, net of tax .....		213	<u>( 109)</u>	1.772	422
<b>Profit before tax</b> .....		76.933	121.901	1.914	96.308
Income tax .....		<u>( 14.904)</u>	<u>( 24.716)</u>	<u>( 141)</u>	<u>( 19.097)</u>
<b>Profit for the period</b> .....		<u>62.029</u>	<u>97.185</u>	<u>1.773</u>	<u>77.211</u>
<b>Other comprehensive (loss) income:</b>					
Foreign currency translation differences of foreign operations .....		<u>( 2.725)</u>	<u>( 2.532)</u>	<u>( 8.289)</u>	6.478
Net loss on hedge of investment, net of tax .....		<u>( 4.514)</u>	0	<u>( 4.514)</u>	0
Effective portion of changes in fair value of cash flow hedge, net of tax .....		<u>( 9.090)</u>	<u>3.018</u>	<u>4.668</u>	<u>( 13.565)</u>
<b>Other comprehensive (loss) profit for the period</b> .....		<u>( 16.329)</u>	<u>486</u>	<u>( 8.135)</u>	<u>( 7.087)</u>
<b>Total comprehensive profit (loss) for the period</b> .....		<u>45.700</u>	<u>97.671</u>	<u>( 6.362)</u>	<u>70.124</u>
<b>Profit attributable to:</b>					
Owners of the Company .....		61.887	97.088	1.607	76.991
Non-controlling interest .....		142	97	166	220
<b>Profit for the period</b> .....		<u>62.029</u>	<u>97.185</u>	<u>1.773</u>	<u>77.211</u>
<b>Total Comprehensive profit (loss) attributable to:</b>					
Owners of the Company .....		45.575	97.619	<u>( 6.480)</u>	69.181
Non-controlling interest .....		125	52	118	943
<b>Total comprehensive profit (loss) for the period</b> .....		<u>45.700</u>	<u>97.671</u>	<u>( 6.362)</u>	<u>70.124</u>
<b>Profit per share:</b>					
Basic profit per share in US cent per share .....		1,29	2,00	0,04	1,59
Diluted profit per share in US cent per share .....		1,29	2,00	0,04	1,59

\* See note 4

The notes on pages 8 to 20 are an integral part of these interim consolidated financial statements.

## Consolidated Statement of Financial Position as at 30 September 2018

	Notes	30.9.2018	31.12.2017 *Restated
<b>Assets</b>			
Operating assets .....	10	673.686	652.705
Intangible assets and goodwill .....		175.507	180.422
Investments in associates .....		26.695	29.629
Receivables and deposits .....		73.721	97.030
Non-current assets		949.609	959.786
Inventories .....		30.079	26.801
Derivatives used for hedging .....		28.502	18.450
Trade and other receivables .....		269.466	186.027
Assets classified as held for sale .....	6	136.715	7.500
Short term investments .....		8.648	4.087
Cash and cash equivalents .....		175.383	221.191
Current assets		648.793	464.056
<b>Total assets</b>		1.598.402	1.423.842
<b>Equity</b>			
Share capital .....		39.053	39.532
Share premium .....		133.513	140.519
Reserves .....	11	93.084	127.407
Retained earnings .....		308.338	287.749
Equity attributable to equity holders of the Company		573.988	595.207
Non-controlling interest .....		1.456	1.338
Total equity		575.444	596.545
<b>Liabilities</b>			
Loans and borrowings .....	12	321.464	280.254
Payables .....		11.202	17.239
Deferred tax liabilities .....		57.240	60.885
Non-current liabilities		389.906	358.378
Loans and borrowings .....	12	84.775	9.287
Derivatives used for hedging .....		5.384	1.383
Trade and other payables .....		264.565	232.188
Liabilities classified as held for sale .....	6	59.095	0
Deferred income .....		219.233	226.061
Current liabilities		633.052	468.919
Total liabilities		1.022.958	827.297
<b>Total equity and liabilities</b>		1.598.402	1.423.842

\* See note 4

The notes on pages 8 to 20 are an integral part of these interim consolidated financial statements.

## Consolidated Statement of Changes in Equity for the period from 1 January to 30 September 2018

	<u>Attributable to equity holders of the Company</u>						Total equity
	Share capital	Share premium	Reserves	Retained earnings	Non-controlling interest	Total	
<b>1 January to 30 September 2017</b>							
Equity 1.1.2017 .....	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 Equity 1.1.2017 .....	40.576	154.705	114.849	262.825	572.955	387	573.342
Total comprehensive profit .....			( 7.810 )	76.991	69.181	943	70.124
Purchase of treasury shares .....	( 1.044 )	( 14.186 )			( 15.230 )		( 15.230 )
Effects of profit or loss and							
dividend from subsidiaries .....			39.883	( 39.883 )			
Dividend (0.10 US cent per share) ....				( 5.044 )	( 5.044 )		( 5.044 )
Equity 30 September 2017 .....	39.532	140.519	146.922	294.889	621.862	1.330	623.192
<b>1 January to 30 September 2018</b>							
Equity 1.1.2018 .....	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 Equity 1.1.2018 .....	39.532	140.519	127.407	287.749	595.207	1.338	596.545
Total comprehensive loss .....			( 8.087 )	1.607	( 6.480 )	118	( 6.362 )
Purchase of treasury shares .....	( 479 )	( 7.006 )			( 7.485 )		( 7.485 )
Effects of profit or loss and							
dividend from subsidiaries .....			( 26.236 )	26.236			
Dividend (0.15 US cent per share) ....				( 7.254 )	( 7.254 )		( 7.254 )
Equity 30 September 2018 .....	39.053	133.513	93.084	308.338	573.988	1.456	575.444

Information on changes in reserves are provided in note 11.

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

## Consolidated Statement of Cash Flows for the nine months ended 30 September 2018

	Note:	2018	2017	2018	2017
		1.7.-30.9.	1.7.-30.9.	1.1.-30.9.	1.1.-30.9.
			*Restated		*Restated
<b>Cash flows (used in) from operating activities</b>					
Profit for the period .....		62.029	97.185	1.773	77.211
Adjustments for:					
Depreciation and amortisation .....		36.698	34.291	99.191	91.028
Expensed deferred cost .....		2.593	2.376	7.516	6.833
Net finance costs (income) .....		1.575	( 397 )	12.142	( 412 )
(Gain) loss on the sale of operating assets .....		( 25 )	97	( 3.235 )	372
Share in (profit) loss of associates .....		( 213 )	109	( 1.772 )	( 422 )
Tax expense .....		14.904	24.716	141	19.097
		<u>117.561</u>	<u>158.377</u>	<u>115.756</u>	<u>193.707</u>
Changes in:					
Inventories, decrease (increase) .....		( 405 )	425	( 4.102 )	446
Trade and other receivables, decrease (increase) .....		32.575	46.227	( 44.309 )	( 8.295 )
Trade and other payables, (decrease) increase .....		( 21.888 )	( 49.628 )	34.717	31.159
Deferred income, (decrease) increase .....		( 171.074 )	( 165.107 )	( 3.230 )	7.047
Cash generated from operating activities		<u>( 160.792 )</u>	<u>( 168.083 )</u>	<u>( 16.924 )</u>	<u>30.357</u>
Interest received .....		189	440	1.030	1.605
Interest paid .....		( 5.044 )	( 3.957 )	( 14.087 )	( 12.305 )
Income taxes paid .....		( 2.549 )	( 6.526 )	( 9.233 )	( 16.815 )
Net cash (used in) from operating activities		<u>( 50.635 )</u>	<u>( 19.749 )</u>	<u>76.542</u>	<u>196.549</u>
<b>Cash flows used in investing activities:</b>					
Acquisition of operating assets .....		( 53.973 )	( 38.754 )	( 232.872 )	( 119.161 )
Proceeds from the sale of operating assets .....		25	358	52.833	666
Acquisition of intangible assets .....		( 560 )	( 946 )	( 2.078 )	( 4.526 )
Capitalised deferred cost .....		0	0	( 1.397 )	( 941 )
Non-current receivables, change .....		( 21.767 )	( 33.966 )	( 73.205 )	( 75.623 )
Cash attributable to asset held for sale .....		( 5.280 )	0	( 5.280 )	0
Marketable securities, change .....		5.015	20.154	( 4.561 )	19.352
Net cash used in investing activities		<u>( 76.540 )</u>	<u>( 53.154 )</u>	<u>( 266.560 )</u>	<u>( 180.233 )</u>
<b>Cash flows from (used in) financing activities:</b>					
Purchase of treasury shares .....		0	0	( 7.483 )	( 15.230 )
Dividend paid .....		0	0	( 7.256 )	( 5.044 )
Proceeds from non-current borrowing .....		3.122	0	102.917	40.000
Repayment of non-current borrowings .....		( 12.400 )	( 2.405 )	( 16.675 )	( 8.410 )
Proceeds from short term borrowings .....		72.254	6	74.687	3.389
Net cash from (used in) financing activities		<u>62.976</u>	<u>( 2.399 )</u>	<u>146.190</u>	<u>14.705</u>
<b>(Decrease) increase in cash and cash equivalents .....</b>		<b>( 64.199 )</b>	<b>( 75.302 )</b>	<b>( 43.828 )</b>	<b>31.021</b>
<b>Effect of exchange rate fluctuations on cash held .....</b>		<b>( 1.476 )</b>	<b>( 590 )</b>	<b>( 1.980 )</b>	<b>2.220</b>
<b>Cash and cash equivalents at beginning of the period .....</b>		<b>241.058</b>	<b>336.022</b>	<b>221.191</b>	<b>226.889</b>
<b>Cash and cash equivalents at 30 September .....</b>		<b><u>175.383</u></b>	<b><u>260.130</u></b>	<b><u>175.383</u></b>	<b><u>260.130</u></b>
<b>Investment and financing without cash flow effect:</b>					
Acquisition of operating assets .....		11.770	0	( 52.506 )	0
Non-current receivables .....		0	0	52.506	0
Trade and other payables .....		( 11.770 )	0	0	0

The notes on pages 8 to 20 are an integral part of these interim consolidated financial statements.

# Notes

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## 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 nine months ended 30 September 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 Reykjavíkurlugvöllur in Reykjavík, Iceland or at its website address, [www.icelandairgroup.is](http://www.icelandairgroup.is) and at The Icelandic Stock Exchange website, [www.nasdaqomx.com](http://www.nasdaqomx.com).

## 2. Basis of accounting

These interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2017. 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 2017.

These interim financial statements were approved for issue by the Board of Directors on 30 October 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.

Other than those stated in note 4, 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 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, continued:

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### 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 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

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
<b>Assets:</b>			
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

## Notes, continued:

4. Changes in accounting policies (continued).	31.12.2017 Original	Adjustment IFRS 15	31.12.2017 Restated
<b>Equity and liabilities</b>			
Equity			
Retained earnings .....	282.739	5.010	287.749
Total equity .....	<u>591.535</u>	<u>5.010</u>	<u>596.545</u>
Non-current liabilities			
Deferred tax liabilities .....	59.633	1.252	60.885
Total non-current liabilities .....	<u>357.126</u>	<u>1.252</u>	<u>358.378</u>
Current liabilities			
Deferred income .....	223.571	2.490	226.061
Total current liabilities .....	<u>466.429</u>	<u>2.490</u>	<u>468.919</u>
Total equity and liabilities .....	<u>1.415.090</u>	<u>8.752</u>	<u>1.423.842</u>

### (ii) Consolidated Statement of Comprehensive Income

The following table shows the change to the line items of the 30 September 2017 Consolidated Statement of Comprehensive Income.

	2017 1.7.-30.9. Original	Adjustment IFRS 15	2017 1.7.-30.9. Restated
<b>Operating income</b>			
Transport revenue .....	408.066	7.513	415.579
Other operating revenue .....	109.718	( 6.511 )	103.207
Total operating income .....	<u>536.030</u>	<u>1.002</u>	<u>537.032</u>
<b>Operating expenses</b>			
Other operating expenses .....	108.225	6.195	114.420
Total operating expenses .....	<u>374.933</u>	<u>6.195</u>	<u>381.128</u>
Operating profit before depr. and amortisation (EBITDA) .....	161.097	( 5.193 )	155.904
Profit before income tax .....	127.094	( 5.193 )	121.901
Income tax .....	( 25.755 )	1.039	( 24.716 )
Profit for the period .....	<u>101.339</u>	<u>( 4.154 )</u>	<u>97.185</u>

### (iii) Consolidated Statement of Cash Flows

The following table shows the change to the line items of the 30 September 2017 Consolidated Statement of Cash Flows

	2017 1.7.-30.9. Original	Adjustment IFRS 15	2017 1.7.-30.9. Restated
<b>Cash flows from operating activities</b>			
Profit for the period .....	101.339	( 4.154 )	97.185
Tax expense .....	25.755	( 1.039 )	24.716
Trade and other receivables, increase .....	40.032	6.195	46.227
Trade and other payables, increase .....	( 48.626 )	( 1.002 )	( 49.628 )

## Notes, continued:

### 4. Changes in accounting policies (continued).

#### (iv) Impact of adopting IFRS 15 on the Group's interim Consolidated Statement of Comprehensive Income as at 30 September 2018

The following table shows the impact by the adoption of IFRS 15 on the Consolidated Statement of Comprehensive Income for the three months 1 July to 30 September 2018:

	Amounts without adoption of IFRS 15	Adjustment IFRS 15	2018 1.7.-30.9. As reported
<b>Operating income</b>			
Transport revenue .....	405.484	1.007	406.491
Total operating income .....	<u>544.186</u>	<u>1.007</u>	<u>545.193</u>
<b>Operating expenses</b>			
Other operating expenses .....	116.338	6.778	123.116
Total operating expenses .....	<u>423.422</u>	<u>6.778</u>	<u>430.200</u>
Operating profit before depr. and amortisation (EBITDA) .....	120.764	( 5.771 )	114.993
Profit before income tax .....	82.704	( 5.771 )	76.933
Income tax .....	( 16.058 )	1.154	( 14.904 )
Profit for the period .....	<u>66.646</u>	<u>( 4.617 )</u>	<u>62.029</u>

The following table shows the impact by the adoption of IFRS 15 on the Consolidated Statement of Comprehensive Income for the nine months ended 30 September 2018:

### 4. Changes in accounting policies (continued).

#### (iv) Impact of adopting IFRS 15 on the Group's interim Consolidated Statement of Comprehensive Income as at 30 September 2018 (continued).

	Amounts without adoption of IFRS 15	Adjustment IFRS 15	2018 1.1.-30.9. As reported
<b>Operating income</b>			
Transport revenue .....	873.774	569	874.343
Total operating income .....	<u>1.211.149</u>	<u>569</u>	<u>1.211.718</u>
<b>Operating expenses</b>			
Other operating expenses .....	291.833	45	291.878
Total operating expenses .....	<u>1.100.198</u>	<u>45</u>	<u>1.100.243</u>
Operating profit before depr. and amortisation (EBITDA) .....	110.951	524	111.475
Profit before income tax .....	1.390	524	1.914
Income tax .....	( 36 )	( 105 )	( 141 )
Profit for the period .....	<u>1.354</u>	<u>419</u>	<u>1.773</u>

## Notes, continued:

### 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.

#### *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 Reykjavik 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	2017
	1.1.-30.9.	1.1.-30.9.
<i>Revenues</i>		
North America .....	37%	39%
Iceland .....	27%	22%
West Continental Europe .....	13%	15%
Scandinavia .....	6%	7%
United Kingdom .....	13%	7%
Other .....	4%	10%
Total revenues .....	<u>100%</u>	<u>100%</u>

## Notes, continued:

### 5. continued:

#### Reportable segments for the nine months ended 30 September 2018

	International flight operations	Aviation investment	Tourism investment	Total
External revenue .....	881.887	154.103	175.728	1.211.718
Inter-segment revenue .....	71.658	5.862	9.220	86.740
Segment revenue .....	953.545	159.965	184.948	1.298.458
Segment EBITDAR* .....	84.933	39.837	26.273	151.043
Operating lease expenses .....	( 8.916 )	( 18.725 )	( 11.927 )	( 39.568 )
Segment EBITDA .....	76.017	21.112	14.346	111.475
Finance income .....	1.335	964	661	2.960
Finance costs .....	( 12.168 )	( 1.707 )	( 1.227 )	( 15.102 )
Depreciation and amortisation .....	( 86.153 )	( 8.005 )	( 5.033 )	( 99.191 )
Share of profit of equity accounted investees ...	1.671	0	101	1.772
Reportable segment (loss) profit before tax .....	( 19.298 )	12.364	8.848	1.914
Reportable segment assets .....	2.063.651	127.444	91.311	2.282.406

#### Reportable segments for the nine months ended 30 September 2017 (restated)

External revenue .....	842.784	117.759	165.864	1.126.407
Inter-segment revenue .....	140.692	7.519	13.476	161.687
Segment revenue .....	983.476	125.278	179.340	1.288.094
Segment EBITDAR* .....	161.669	30.048	21.429	213.146
Operating lease expenses .....	( 6.763 )	( 10.569 )	( 9.312 )	( 26.644 )
Segment EBITDA .....	154.906	19.479	12.117	186.502
Finance income .....	14.959	846	1.133	16.938
Finance costs .....	( 9.060 )	( 6.316 )	( 1.150 )	( 16.526 )
Depreciation and amortisation .....	( 78.800 )	( 7.958 )	( 4.270 )	( 91.028 )
Share of profit of equity accounted investees ...	158	0	264	422
Reportable segment profit before tax .....	82.163	6.051	8.094	96.308
Reportable segment assets .....	1.971.806	117.495	81.755	2.171.056

\*EBITDAR means EBITDA before operating lease expenses.

## Notes, continued:

### 5. continued:

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

	2018 1.1.-30.9.	2017 1.1.-30.9.
<b>Revenue</b>		
Total revenue for reportable segments .....	1.298.458	1.288.094
Elimination of inter-segment revenue .....	( 86.740 )	( 161.687 )
Consolidated revenue .....	<u>1.211.718</u>	<u>1.126.407</u>
<b>Profit or loss</b>		
Total loss of reportable segments .....	1.914	96.308
Consolidated profit before tax .....	<u>1.914</u>	<u>96.308</u>

	Reportable segment totals	Adjust- ments	Consoli- dated totals
<b>1.1.-30.9.2018</b>			
Segment EBITDAR .....	151.043		151.043
Segment EBITDA .....	111.475		111.475
Finance income .....	2.960	( 569 )	2.391
Finance costs .....	( 15.102 )	569	( 14.533 )
Depreciation and amortisation .....	( 99.191 )		( 99.191 )
Share of profit of associates .....	1.772		1.772
Capital expenditure .....	236.347		236.347
<b>1.1.-30.9.2017</b>			
Segment EBITDAR .....	213.146		213.146
Segment EBITDA .....	186.502		186.502
Finance income .....	16.938	( 4.683 )	12.255
Finance costs .....	( 16.526 )	4.683	( 11.843 )
Depreciation and amortisation .....	( 91.028 )		( 91.028 )
Share of profit of associates .....	422		422
Capital expenditure .....	124.628		124.628

## Notes, continued:

### 6. Assets held for sale

Management has committed to a plan to sell its hotel operation by end of Q1 2019, 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 shown as classified held for sale. Comparative amounts have not been re-presented. The impact on the financial statements as a whole is presented below.

#### a. Impacts on financial statements

##### (i) Comprehensive income for the hotel operation

	2018 1.7.-30.9.	2017 1.7.-30.9.	2018 1.1.-30.9.	2017 1.1.-30.9.
Revenue .....	41.633	35.011	92.897	80.983
Elimination of inter-segment revenue .....	( 6.115)	( 10.572)	( 13.002)	( 16.826)
External revenue .....	35.518	24.439	79.895	64.157
Expenses .....	( 32.777)	( 28.524)	( 87.691)	( 76.303)
Elimination of expenses of inter-segment sales .....	6.115	10.572	13.002	16.826
External expenses .....	( 26.662)	( 17.952)	( 74.689)	( 59.477)
<b>Profit from operating activities .....</b>	<b>8.856</b>	<b>6.487</b>	<b>5.206</b>	<b>4.680</b>
Income tax .....	( 1.753)	( 1.334)	( 1.023)	( 978)
<b>Profit from hotel operations, net of tax .....</b>	<b>7.103</b>	<b>5.153</b>	<b>4.183</b>	<b>3.702</b>
Basic profit per share in US cent per share .....	0,15	0,11	0,09	0,08
Diluted profit per share in US cent per share .....	0,15	0,11	0,09	0,08

##### (ii) Cash flows from (used) in hotel operation

	2018 1.7.-30.9.	2017 1.7.-30.9.	2018 1.1.-30.9.	2017 1.1.-30.9.
Net cash from operating activities .....	9.295	7.082	7.203	6.061
Net cash used in investing activities .....	( 10.737)	( 1.076)	( 21.593)	( 9.688)
Net cash from financing activities .....	4.021	2.731	13.749	6.211
<b>Net cash flows for the period .....</b>	<b>2.579</b>	<b>8.737</b>	<b>( 641)</b>	<b>2.584</b>

##### (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 as of 30 September 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:

	30.9.2018	31.12.2017
Operating assets .....	104.855	7.500
Intangible assets and goodwill .....	5.262	0
Investments in associates .....	1.102	0
Inventories .....	824	0
Trade and other receivables .....	19.392	0
Cash and cash equivalents .....	5.280	0
Deferred tax liabilities .....	( 3.635)	0
Loans and borrowings .....	( 37.657)	0
Trade and other payables .....	( 14.205)	0
Deferred income .....	( 3.598)	0
<b>Net assets and liabilities .....</b>	<b>77.620</b>	<b>7.500</b>

## Notes, continued:

### 7. Operating income

Transport revenue is specified as follows:

	2018	Restated 2017	2018	Restated 2017
	1.7.-30.9.	1.7.-30.9.	1.1.-30.9.	1.1.-30.9.
Passengers .....	363.123	383.314	764.413	762.833
Passenger ancillary revenues .....	29.076	16.921	66.381	39.227
Cargo and mail .....	14.292	15.344	43.549	41.442
Total transport revenue .....	<u>406.491</u>	<u>415.579</u>	<u>874.343</u>	<u>843.502</u>

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 .....	37.552	26.886	82.235	65.911
Revenue from tourism .....	57.661	61.485	117.366	117.810
Aircraft and cargo handling services .....	5.742	5.936	18.435	15.180
Maintenance revenue .....	11	1.210	1.641	2.959
Gain on sale of operating assets .....	25	0	3.235	0
Other operating revenue .....	8.249	7.690	22.033	21.740
Total other operating revenue .....	<u>109.240</u>	<u>103.207</u>	<u>244.945</u>	<u>223.600</u>

### 8. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries .....	95.290	82.216	265.227	222.456
Salary-related expenses .....	18.182	16.822	70.226	56.148
Other personnel expenses .....	17.341	19.078	53.474	51.560
Total salaries and personnel expenses .....	<u>130.813</u>	<u>118.116</u>	<u>388.927</u>	<u>330.164</u>

Aviation expenses are specified as follows:

Aircraft fuel .....	97.740	82.364	224.627	180.705
Aircraft lease .....	10.179	5.226	27.353	16.039
Aircraft handling, landing and communication .....	46.388	41.424	107.183	93.573
Aircraft maintenance expenses .....	21.964	19.578	60.275	55.659
Total aviation expenses .....	<u>176.271</u>	<u>148.592</u>	<u>419.438</u>	<u>345.976</u>

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures .....	10.827	8.333	28.907	22.184
Communication .....	8.789	6.851	22.800	19.551
Advertising .....	7.112	5.458	23.195	20.678
Booking fees and commission expenses .....	22.451	21.554	49.238	47.395
Cost of goods sold .....	4.903	3.544	11.800	10.164
Customer services .....	20.290	18.184	50.228	39.813
Tourism expenses .....	38.711	41.438	76.905	76.886
Allowance for bad debt .....	457	490	439	1.026
Other operating expenses .....	9.576	8.568	28.366	26.068
Total other operating expenses .....	<u>123.116</u>	<u>114.420</u>	<u>291.878</u>	<u>263.765</u>

## Notes, continued:

### 9. Finance income and finance costs

Finance income and finance costs are specified as follows:

	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>1.7.-30.9.</b>	<b>1.7.-30.9.</b>	<b>1.1.-30.9.</b>	<b>1.1.-30.9.</b>
Interest income on bank deposits .....	330	311	1.099	975
Other interest income .....	( 101 )	665	494	2.200
Net foreign exchange gain .....	798	3.511	798	9.080
Finance income total .....	<u>1.027</u>	<u>4.487</u>	<u>2.391</u>	<u>12.255</u>
Interest expenses on loans and borrowings .....	5.407	3.788	13.832	10.997
Other interest expenses .....	203	302	701	846
Net foreign exchange loss .....	( 3.008 )	0	0	0
Finance costs total .....	<u>2.602</u>	<u>4.090</u>	<u>14.533</u>	<u>11.843</u>
Net finance (costs) income .....	( 1.575 )	397	( 12.142 )	412

### 10. Operating assets

Acquisition of operating assets in the first nine months of 2018 amounted to USD 285.4 million. Included are 3 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 226.0 million.

### 11. Equity

Reserves are specified as follows:

	<b>Hedging</b>	<b>Translation</b>	<b>Other</b>	<b>Total</b>
	<b>reserve</b>	<b>reserve</b>	<b>reserves</b>	<b>reserves</b>
Reserves 1.1.2017 .....	16.423	34.524	63.902	114.849
Changes during the period .....	( 13.565 )	5.755	39.883	32.073
Reserves 30.9.2017 .....	<u>2.858</u>	<u>40.279</u>	<u>103.785</u>	<u>146.922</u>
Reserves 1.1.2018 .....	13.914	42.240	71.253	127.407
Changes during the period .....	4.668	( 12.755 )	( 26.236 )	( 34.323 )
Reserves 30.9.2018 .....	<u>18.582</u>	<u>29.485</u>	<u>45.017</u>	<u>93.084</u>

### 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.

	<b>30.9.2018</b>	<b>31.12.2017</b>
Non-current loans and borrowings are specified as follows:		
Secured bank loans .....	193.619	65.786
Unsecured loans .....	212.620	223.755
	<u>406.239</u>	<u>289.541</u>
Current maturities .....	( 84.775 )	( 9.287 )
Total non-current loans and borrowings .....	<u>321.464</u>	<u>280.254</u>

Terms and debt repayment schedule:

		<b>Nominal</b>		<b>Total</b>	
	<b>Currency</b>	<b>interest</b>	<b>Year of</b>	<b>remaining balance</b>	<b>remaining balance</b>
		<b>rates</b>	<b>maturity</b>	<b>30.9.2018</b>	<b>31.12.2017</b>
Secured bank loans .....	USD	2,2%	2018-2028	40.353	12.202
Secured bank loans .....	EUR	1,4%	2026-2028	73.747	7.285
Secured bank loans .....	ISK	6,0%	2036	2.319	41.146
Secured bank loans, indexed .....	ISK			0	1.706
Unsecured bond issue .....	USD	5,6%	2020-2021	212.620	212.361
Unsecured bond issue, indexed ....	ISK			0	11.394
Secured bank loans - short term ....	USD	5,9%	2018	39.177	3.447
Secured bank loans - short term ....	ISK	5,6%	2018	38.023	0
Total interest-bearing liabilities .....				<u>406.239</u>	<u>289.541</u>

## Notes, continued:

### 13. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	2018	2017
Repayments in 2018 (3 months)(2017: 12 months) .....	78.947	9.287
Repayments in 2019 .....	7.060	41.723
Repayments in 2020 .....	30.861	27.015
Repayments in 2021 .....	197.344	193.534
Repayments in 2022 .....	11.409	7.573
Subsequent repayments .....	80.618	10.409
Total loans and borrowings .....	406.239	289.541

### 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:

	30.9.2018		31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives, included in loans and receivables .....	28.502	28.502	17.067	17.067
Short term investments .....	8.648	8.648	4.087	4.087
Unsecured bond issue .....	( 212.620)	( 229.973)	( 223.755)	( 246.238)
Secured loans .....	( 193.619)	( 192.069)	( 65.786)	( 27.765)
Total .....	( 369.089)	( 384.892)	( 268.387)	( 252.849)

### 15. 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 September 2018 the leases are payable as follows in nominal amounts for each year:

				Total
	Real estate	Aircraft	Other	30.9.2018
In Q4 2018 .....	5.428	5.887	3.451	14.766
In the year 2019 .....	20.644	28.581	3.877	53.102
In the year 2020 .....	26.812	29.264	3.450	59.526
In the year 2021 .....	25.679	24.108	2.856	52.643
In the year 2022 .....	25.422	22.578	2.778	50.778
Subsequent .....	288.697	86.050	34.790	409.537
Total .....	392.682	196.468	51.202	640.352

## Notes, continued:

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### 16. 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 is as follows:

	2019	2020	2021
Boeing 737 Max 8 .....	3	2	1
Boeing 737 Max 9 .....	3	3	1
Total .....	<u>6</u>	<u>5</u>	<u>2</u>

### 17. Group entities

The Company held ten subsidiaries at the end of September 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%
Icelandair ehf. ....	100%
Icelandair ehf. ....	100%
Aviation investments:	
Air Iceland ehf. ....	100%
Feria ehf. ....	100%
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.

## Notes, continued:

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### 18. Ratios

The Group's primary ratios are specified as follows:

	<b>30.9.2018</b>	<b>31.12.2017</b>
Current ratio .....	1,02	0,99
Equity ratio .....	0,36	0,42
Intrinsic value of share capital .....	14,73	15,08

### 19. 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.