

Icelandair Group hf.  
Consolidated Financial Statements  
for the year 2018  
USD

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

# Contents

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Endorsement and Statement by the Board of Directors and the CEO .....	3
Independent Auditors' Report .....	6
Consolidated Statement of Profit or Loss and other Comprehensive Income .....	10
Consolidated Statement of Financial Position .....	11
Consolidated Statement of Changes in Equity .....	12
Consolidated Statement of Cash Flows .....	13
Notes to the Consolidated Financial Statements .....	14
<b>Appendices:</b>	
Corporate Governance Statement .....	56
Non-Financial Reporting .....	60
Quarterly Statements .....	65

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

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## 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](http://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.:

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## **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
<p><b>Timing and accuracy of revenue recognition of passenger income</b></p> <p><i>Reference is made to note 8 "Operating income" and 32 "Deferred income".</i></p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>We analysed passenger revenue and used external and internal information to set expectations which were compared to recognized revenue.</p> <p>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 reporting date.</p>

# Independent Auditors' Report, contd.:

Key audit matter	How our audit responded to the key audit matter
<p><b>Expected recoverable amount of intangible assets and goodwill</b></p> <p><i>Reference is made to note 17 "Intangible assets and goodwill" and 43o "Impairment".</i></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>We assessed management assumptions by comparing them to both internal and external industry information.</p> <p>Our procedures included among others:</p> <ul style="list-style-type: none"> <li>- 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.</li> <li>- Assessing the reasonableness of management forecasts of the long term growth rate.</li> <li>- Assessing the reasonableness of management forecasts for changes in margins, new investments, utilization and changes in pricing.</li> <li>- Assessing the reasonableness of the discount rates applied by comparing them to current finance cost and market conditions for the cash generating units.</li> <li>- Review of information in the notes to the financial statements to confirm that all information required by applicable accounting policies were provided.</li> </ul>

## 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.:

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## **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.:

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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
<b>Operating income</b>			
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
		<u>1.510.518</u>	<u>1.417.987</u>
<b>Operating expenses</b>			
Salaries and other personnel expenses .....		515.872	445.162
Aviation expenses .....		552.669	456.012
Other operating expenses .....		365.498	346.737
	9	<u>1.434.039</u>	<u>1.247.911</u>
<b>Operating profit before depreciation and amortisation (EBITDA)</b> .....		76.479	170.076
Depreciation and amortisation .....	11	( 133.447)	( 120.431)
<b>Operating (loss) profit (EBIT)</b> .....		( 56.968)	49.645
Finance income .....		8.578	14.083
Finance costs .....		( 21.172)	( 15.678)
<b>Net finance costs</b> .....	12	( 12.594)	( 1.595)
Share of profit of associates .....	19	1.752	592
<b>(Loss) profit before tax</b> .....		( 67.810)	48.642
Income tax .....	22	12.240	( 11.104)
<b>(Loss) profit for the year</b> .....		<u>( 55.570)</u>	<u>37.538</u>
<b>Other comprehensive (loss) income</b>			
<b>Items that are or may be reclassified to profit or loss</b>			
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
<b>Other comprehensive (loss) income for the year</b> .....		( 54.857)	5.939
<b>Total comprehensive (loss) income for the year</b> .....		<u>( 110.427)</u>	<u>43.477</u>
Owners of the Company .....		( 55.815)	37.438
Non-controlling interests .....		245	100
<b>(Loss) profit for the year</b> .....		<u>( 55.570)</u>	<u>37.538</u>
<b>Total Comprehensive (loss) income attributable to:</b>			
Owners of the Company .....		( 110.606)	42.526
Non-controlling interests .....		179	951
<b>Total comprehensive (loss) income for the year</b> .....		<u>( 110.427)</u>	<u>43.477</u>
<b>(Loss) earnings per share:</b>			
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
<b>Assets:</b>			
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
<b>Total assets</b>		1.464.122	1.423.842
<b>Equity:</b>			
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
<b>Liabilities:</b>			
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
<b>Total equity and liabilities</b>		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

	<b>Attributable to equity holders of the Company</b>					<b>Non-con- trolling interest</b>	<b>Total equity</b>
	<b>Share capital</b>	<b>Share premium</b>	<b>Reserves</b>	<b>Retained earnings</b>	<b>Total</b>		
<b>2017</b>							
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
<b>2018</b>							
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
<b>Cash flows from operating activities:</b>			
(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
<b>Cash flows to investing activities:</b>			
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 )
<b>Cash flows to financing activities:</b>			
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
<b>Increase (decrease) in cash and cash equivalents .....</b>		80.956	( 8.262 )
<b>Effect of exchange rate fluctuations on cash held .....</b>	(	2.687 )	2.564
<b>Cash and cash equivalents at beginning of the year .....</b>		221.191	226.889
<b>Cash and cash equivalents at 31 December .....</b>	26	299.460	221.191
<b>Investment and financing without cash flow effect:</b>			
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

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## 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 Reykjavíkurlugvöllur 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.

## Notes, contd.:

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### 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.

	<b>Original classification under IAS 39</b>	<b>New classification under IFRS 9</b>
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

## Notes, contd.:

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
<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
<b>Equity and liabilities:</b>			
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



## Notes, contd.:

### 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.

	<b>2017 Original</b>	<b>Adjustment IFRS 15</b>	<b>2017 Restated</b>
<b>Operating income</b>			
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
<b>Operating expenses</b>			
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.

	<b>2017 Original</b>	<b>Adjustment IFRS 15</b>	<b>2017 Restated</b>
<b>Cash flows from operating activities</b>			
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:

	<b>Amounts without adoption of IFRS 15</b>	<b>Adjustment IFRS 15</b>	<b>2018 As reported</b>
<b>Operating income</b>			
Transport revenue .....	1.092.610	704	1.093.314
Total operating income .....	1.509.814	704	1.510.518
<b>Operating expenses</b>			
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 )

## Notes, contd.:

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### 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:

	<b>2018</b>	<b>2017</b>
<b>Revenues</b>		
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%

## Notes, contd.:

### 6. contd.:

#### Information on reportable segments

	<b>International flight operations</b>	<b>Aviation investment</b>	<b>Tourism investment</b>	<b>Total</b>
<b>2018</b>				
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 .....	<u>1.203.728</u>	<u>204.011</u>	<u>215.724</u>	<u>1.623.463</u>
Segment EBITDAR* .....	55.013	47.017	24.863	126.893
Operating lease expenses .....	( 12.397 )	( 23.987 )	( 14.030 )	( 50.414 )
Segment EBITDA .....	<u>42.616</u>	<u>23.030</u>	<u>10.833</u>	<u>76.479</u>
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 .....	<u>( 83.825 )</u>	<u>11.021</u>	<u>4.994</u>	<u>( 67.810 )</u>
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
<b>2017 restated**</b>				
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 .....	<u>1.240.744</u>	<u>170.762</u>	<u>218.685</u>	<u>1.630.191</u>
Segment EBITDAR* .....	146.898	39.018	21.849	207.765
Operating lease expenses .....	( 9.414 )	( 16.031 )	( 12.244 )	( 37.689 )
Segment EBITDA .....	<u>137.484</u>	<u>22.987</u>	<u>9.605</u>	<u>170.076</u>
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 .....	<u>39.945</u>	<u>5.401</u>	<u>3.296</u>	<u>48.642</u>
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

## Notes, contd.:

### 6. contd.:

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

	2018	2017 restated**
<b>Revenue</b>		
Total revenue for reportable segments .....	1,623,463	1,630,191
Elimination of inter-segment revenue .....	( 112,945 )	( 212,204 )
Consolidated revenue .....	<u>1,510,518</u>	<u>1,417,987</u>
<b>Profit or loss</b>		
Total profit of reportable segments .....	( 67,810 )	48,642
Consolidated continuing profit before tax .....	<u>( 67,810 )</u>	<u>48,642</u>
<b>Assets</b>		
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 .....	<u>1,464,122</u>	<u>1,423,842</u>
<b>Liabilities</b>		
Total liabilities for reportable segments .....	1,379,456	1,067,187
Elimination of inter-segment liabilities .....	( 386,713 )	( 239,890 )
Consolidated total liabilities .....	<u>992,743</u>	<u>827,297</u>

#### Other material items

	Reportable segment totals	Adjust- ments	Consoli- dated totals
<b>2018</b>			
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
<b>2017</b>			
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

## Notes, contd.:

### 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 .....	<u>101.702</u>	<u>85.629</u>
Expenses .....	( 114.051)	( 102.324 )
Elimination of expenses of inter-segment sales .....	15.328	19.782
External expenses .....	( 98.723 )	( 82.542 )
<b>Profit from operating activities</b> .....	<u>2.979</u>	<u>3.087</u>
Income tax .....	( 575 )	( 558 )
<b>Profit from hotel operations, net of tax</b> .....	<u>2.404</u>	<u>2.529</u>
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
<b>Net cash flows for the period</b> .....	<u>( 210 )</u>	<u>3.876</u>

##### (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
<b>Net assets and liabilities</b> .....	<u>72.925</u>	<u>7.500</u>

## Notes, contd.:

### 8. Operating income

Transport revenue is specified as follows:

	2018	2017
		<b>Restated</b>
Passengers .....	947.494	941.611
Passenger ancillary revenues .....	87.462	52.145
Cargo and mail .....	58.358	56.345
Total transport revenue .....	<u>1.093.314</u>	<u>1.050.101</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 .....	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 .....	<u>297.091</u>	<u>280.185</u>

### 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 .....	<u>515.872</u>	<u>445.162</u>

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 .....	<u>552.669</u>	<u>456.012</u>

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 .....	<u>365.498</u>	<u>346.737</u>

### 10. Auditor's fee

Auditor's fee are specified as follows:

	Group auditors		Other auditors	
	2018	2017	2018	2017
Audit .....	555	538	3	0
Other services .....	66	327	34	0
	<u>621</u>	<u>865</u>	<u>37</u>	<u>0</u>

## Notes, contd.:

### 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:

<b>Cost</b>	<b>Aircraft and flight equipment</b>	<b>Buildings</b>	<b>Other property and equipment</b>	<b>Total</b>
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
<b>Depreciation and impairment losses</b>				
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
<b>Carrying amounts</b>				
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%	

## Notes, contd.:

### 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:

	Maintenance hangars	Hotels / staff apartm.	Office buildings	Other buildings	Under construction	Total
<b>2018</b>						
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
<b>2017</b>						
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).



## Notes, contd.:

### 17. Intangible assets and goodwill

Intangible assets and goodwill are specified as follows:

Cost	Trademarks		Other	
	Goodwill	and slots	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 acquisition 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

## Notes, contd.:

### 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:

	<b>International flight operations</b>	<b>Aviation investments</b>	<b>Tourism investments</b>
<b>2018</b>			
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%
<b>2017</b>			
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.

## Notes, contd.:

### 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:

	Ownership	2018		2017	
		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 .....		<u>26.134</u>	<u>1.752</u>	<u>29.629</u>	<u>592</u>

Lindarvatn ehf. is the owner of a property at Thorvaldsensstræti and other properties located near Austurvöllur 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 .....	<u>91</u>	<u>0</u>

Deferred cost will be expensed as follows:

	2018	2017
Expensed in 2018 .....	532	68
Expensed in 2019 .....	91	
Total deferred cost, including current maturities .....	<u>623</u>	<u>68</u>

### 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
	<u>22.494</u>	<u>150.137</u>
Current maturities .....	( 5.129 )	( 53.107 )
Non-current receivables and deposits total .....	<u>17.365</u>	<u>97.030</u>

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 .....	<u>22.494</u>	<u>150.137</u>

Non-current receivables and deposits denominated in currencies other than the functional currency comprise USD 1.4 million (2017: USD 1.5 million).

## Notes, contd.:

### 22. Income taxes

#### Amounts recognised in profit or loss

	2018	2017
<i>Current tax expense</i>		
Current year .....	0	8.894
	<u>0</u>	<u>8.894</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences .....	( 12.240 )	2.210
Total tax expense recognised in profit or loss .....	<u>( 12.240 )</u>	<u>11.104</u>

#### 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 .....	<u>( 12.030 )</u>	<u>( 631 )</u>

	2018		2017	
			Restated	
<b>Reconciliation of effective tax rate</b>				
(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 .....	<u>18,1%</u>	<u>( 12.240 )</u>	<u>22,8%</u>	<u>11.104</u>

#### Recognised deferred tax liabilities

	2018	2017
	Restated	
Deferred tax liabilities are specified as follows:		
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 .....	<u>32.868</u>	<u>60.885</u>

#### Deferred tax liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
				Restated		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 )
	<u>6.665</u>	<u>0</u>	<u>( 62.371 )</u>	<u>( 58.998 )</u>	<u>( 55.706 )</u>	<u>( 58.998 )</u>
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 .....	<u>30.228</u>	<u>1.020</u>	<u>( 63.096 )</u>	<u>( 61.905 )</u>	<u>( 32.868 )</u>	<u>( 60.885 )</u>

## Notes, contd.:

### 22. contd.:

#### Movements in deferred tax balance during the year

2018	1 January	Recognised in profit or loss	Exchange rate difference	Recognised in other com- prehensive 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)	
<b>2017 *restated</b>							
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.

## Notes, contd.:

<b>26. Cash and cash equivalents</b>	<b>2018</b>	<b>2017</b>
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:

	<b>Hedging reserve</b>	<b>Translation reserve</b>	<b>Reserve for profit share of affiliates</b>	<b>Total reserves</b>
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.

## Notes, contd.:

### 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
<b>Basic (loss) earnings per share:</b>		
(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 .....	0	( 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

## Notes, contd.:

### 29. contd.:

#### Loans and borrowings are specified as follows:

	2018	2017
<b>Non-current loans and borrowings:</b>		
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
<b>Current loans and borrowings:</b>		
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:

		Nominal interest rates year end 2018	Year of maturity	Total remaining balance	
	Currency			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.



## Notes, contd.:

### 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 .....	<u>14.554</u>	<u>17.239</u>

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 .....	<u>27.406</u>	<u>24.289</u>

### 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 .....	<u>222.766</u>	<u>232.188</u>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 33.

## Notes, contd.:

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### 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
		<b>Restated</b>
Sold unused tickets .....	171.537	188.754
Frequent flyer points .....	19.165	19.124
Other prepayments .....	24.148	18.183
Total deferred income .....	<u>214.850</u>	<u>226.061</u>

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.

## Notes, contd.:

### 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:

	Note	Carrying amount	
		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
		<u>405.087</u>	<u>493.195</u>

#### 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
	<u>69.243</u>	<u>100.972</u>
Prepayments on aircraft purchases .....	4.249	52.521
Other receivables .....	44.806	32.534
	<u>118.298</u>	<u>186.027</u>

#### Impairment losses

The aging of trade receivables at the reporting date was as follows:

	Allowance for		Allowance for	
	Gross	Impairment	Gross	Impairment
	2018	2018	2017	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 .....	<u>74.015</u>	<u>( 4.772)</u>	<u>105.805</u>	<u>( 4.833)</u>

## Notes, contd.:

### 33. contd.:

Changes in the allowance for impairment in respect of trade receivables during the year were as follows:

	<b>2018</b>	<b>2017</b>
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 .....	<u>4.772</u>	<u>4.833</u>

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:

<b>31 December 2018</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Within 12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
<b>Non-derivative financial liabilities</b>						
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
	<u>653.121</u>	<u>707.040</u>	<u>521.589</u>	<u>18.581</u>	<u>75.408</u>	<u>91.462</u>
<b>Derivative financial liabilities</b>						
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)
	<u>36.605</u>	<u>35.799</u>	<u>33.654</u>	<u>2.331</u>	<u>( 177)</u>	<u>( 9)</u>

## Notes, contd.:

### 33. contd.:

<b>31 December 2017</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Within 12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
<b>Non-derivative financial liabilities</b>						
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
<b>Derivative financial liabilities</b>						
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 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 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.

## Notes, contd.:

### 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
<b>2017</b>	<b>ISK</b>	<b>EUR</b>	<b>GBP</b>	<b>DKK</b>	<b>SEK</b>	<b>CAD</b>
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

## Notes, contd.:

### 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.

	Directly in	Profit or	Total
	equity	loss	effect on
2018			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	
	2018	2017
<i>Fixed rate instruments</i>		
Financial assets .....	0	4.087
Commodity derivatives and forward exchange contracts .....	( 36.605)	17.705
Interest rate swaps .....	( 99.796)	( 50.000)
	<u>( 136.401)</u>	<u>( 28.208)</u>
<i>Variable rate instruments</i>		
Financial assets .....	299.177	220.312
Financial liabilities .....	( 318.523)	( 211.709)
	<u>( 19.346)</u>	<u>8.603</u>

## Notes, contd.:

### 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.

	<b>100 bp increase</b>	<b>100 bp decrease</b>
<b>31 December 2018</b>		
Commodity derivatives and forward exchange contracts .....	145 (	148)
Interest rate swaps .....	3.115 (	3.275)
Fair value sensitivity (net) .....	<u>3.261</u> (	<u>3.423</u> )
<b>31 December 2017</b>		
Fixed rate instruments .....	( 80)	83
Commodity derivatives and forward exchange contracts .....	( 70)	71
Interest rate swaps .....	( 1.541)	1.499
Fair value sensitivity (net) .....	<u>( 1.692)</u>	<u>1.653</u>

#### *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.

	<b>100 bp increase</b>	<b>100 bp decrease</b>
<b>31 December 2018</b>		
Variable rate instruments .....	155 (	155)
Cash flow sensitivity (net) .....	<u>155</u> (	<u>155</u> )
<b>31 December 2017</b>		
Variable rate instruments .....	69 (	69)
Cash flow sensitivity (net) .....	<u>69</u> (	<u>69</u> )

#### **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."



## Notes, contd.:

### 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 .....	<u>376.807</u>	<u>( 458.223)</u>	<u>310.695</u>	<u>( 293.588)</u>

#### Fair value hierarchy:

The table below analyses the fair value of assets and liabilities and their levels in the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
<b>31 December 2018</b>				
<b>Financial assets</b>				
Derivatives used for hedging .....		666		666
	<u>0</u>	<u>666</u>	<u>0</u>	<u>666</u>
<b>Financial liabilities</b>				
Unsecured bond issue .....		( 221.058)	( 221.058)	( 221.058)
Secured loans .....		( 198.171)	( 198.171)	( 198.171)
Derivatives used for hedging .....		( 39.660)	( 39.660)	( 39.660)
	<u>0</u>	<u>( 39.660)</u>	<u>( 419.229)</u>	<u>( 458.889)</u>
<b>31 December 2017</b>				
<b>Financial assets</b>				
Derivatives used for hedging .....		18.450		18.450
Short term investments .....	4.087			4.087
	<u>4.087</u>	<u>18.450</u>	<u>0</u>	<u>22.537</u>
<b>Financial liabilities</b>				
Unsecured bond issue .....		( 246.238)	( 246.238)	( 246.238)
Secured loans .....		( 68.504)	( 68.504)	( 68.504)
Derivatives used for hedging .....		( 1.383)	( 1.383)	( 1.383)
	<u>0</u>	<u>( 1.383)</u>	<u>( 314.742)</u>	<u>( 316.125)</u>

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.

## Notes, contd.:

### 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:

<b>2018</b>	<b>Real estate</b>	<b>Aircraft</b>	<b>Other</b>	<b>Total</b>
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
<b>2017</b>				
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:

	<b>2018</b>	<b>2017</b>
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:

	<b>2019</b>	<b>2020</b>	<b>2021</b>
Boeing 737 MAX8 .....	3	2	1
Boeing 737 MAX9 .....	3	3	1
Total .....	6	5	2

## Notes, contd.:

### 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.

	<b>2018</b>	<b>Number of</b>	<b>2017</b>	<b>Number of</b>
	<b>Salaries</b>	<b>shares held</b>	<b>Salaries</b>	<b>shares held</b>
	<b>and</b>	<b>at year-end</b>	<b>and</b>	<b>at year-end</b>
	<b>benefits</b>	<b>2018 in</b>	<b>benefits</b>	<b>2017 in</b>
	<b>ISK</b>	<b>thousands</b>	<b>ISK</b>	<b>thousands</b>
<b>Board of Directors:</b>				
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	
<b>Key employees:</b>				
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.

## Notes, contd.:

### 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 be classified as an investment in an associated company.

## Notes, contd.:

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### 42. Ratios

The Group's primary ratios at year end are specified as follows:

	<b>2018</b>	<b>2017</b> <b>*Restated</b>
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 loses control over subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components 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.

## Notes, contd.:

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### 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 expensed when the related service is provided.

## Notes, contd.:

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**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.

## Notes, contd.:

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### 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:

	<b>Useful life</b>
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:

	<b>Useful life</b>
Software .....	3 years
Other intangible assets .....	6-10 years



## Notes, contd.:

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### 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 substantially 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-distribution 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.

## Notes, contd.:

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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 respect 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.

## Notes, contd.:

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### 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.

## Notes, contd.:

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### 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).

## Notes, contd.:

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### 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

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## **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 Committee:

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



## Corporate Governance Statement, contd.:

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### 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.

## Corporate Governance Statement, contd.:

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### **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.

## Corporate Governance Statement, contd.:

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### **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.:

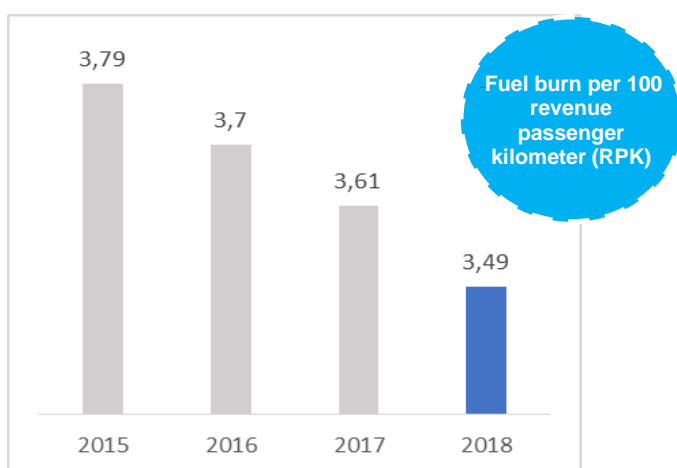
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In addition to compliance with applicable laws and regulations, the Company demonstrates its commitment to this policy through:

- 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

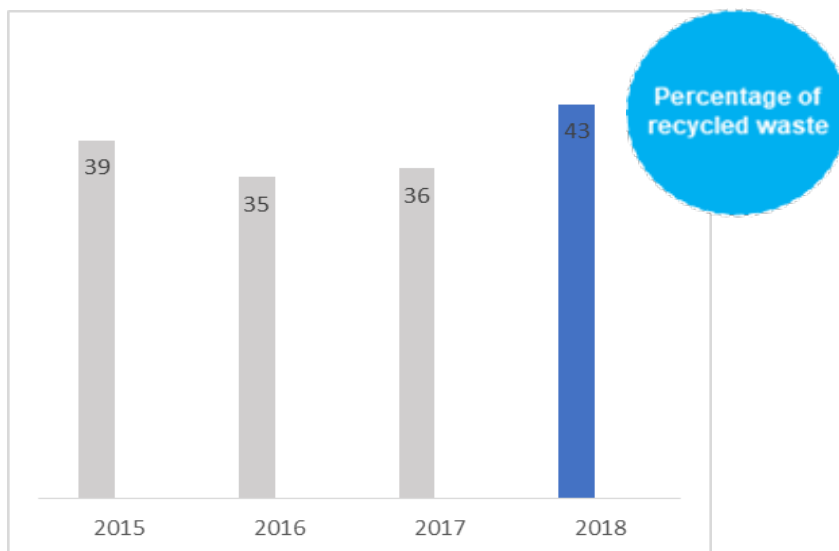
Icelandair Group is committed to supporting continuous improvements by setting measurable targets, raising awareness and benchmarking performance.

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.



## Non-Financial Reporting, contd.:

### 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 annually basis. Knowledge-sharing is key and each year we strive to engage new talent to work on various projects within the Company.

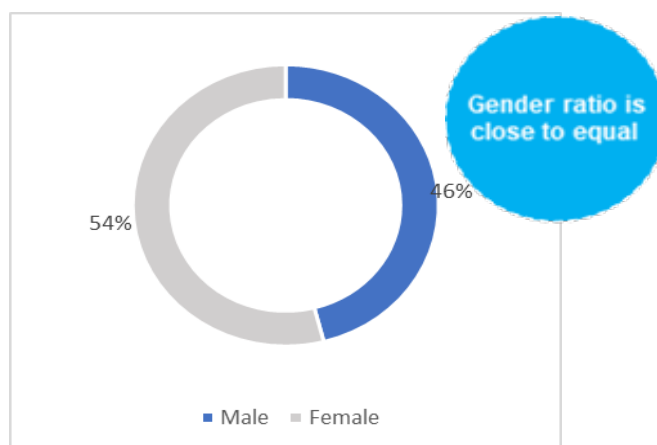
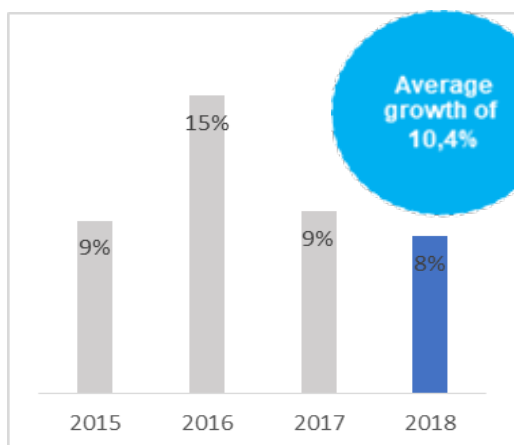
Icelandair Group is a leading shareholder of the Icelandic Tourism Fund, an investment fund focused on new projects that increase the diversity of Icelandic tourism and strengthen its infrastructure. A key focus is on all-year-round projects that provide additional recreational options for tourists and 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](http://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.



## Non-Financial Reporting, contd.:

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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.

## Non-Financial Reporting, contd.:

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### **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](http://www.icelandairgroup.is).



## Quarterly statements (unaudited)

Unaudited summary of the Group's operating results by quarters:

	Q1	Q2	Q3	Q4	Total
<b>Year 2018</b>					
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
<b>(Loss) profit</b> .....	<b>( 34.528)</b>	<b>( 25.728)</b>	<b>62.029</b>	<b>( 57.343)</b>	<b>( 55.570)</b>
Other comprehensive profit (loss) .....	7.583	611	( 16.329)	( 46.722)	( 54.857)
<b>Total comprehensive (loss) income</b> .....	<b>( 26.945)</b>	<b>( 25.117)</b>	<b>45.700</b>	<b>( 104.065)</b>	<b>( 110.427)</b>
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
<b>Year 2017</b>					
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)
<b>(Loss) profit</b> .....	<b>( 29.884)</b>	<b>9.910</b>	<b>97.185</b>	<b>( 39.673)</b>	<b>37.538</b>
Other comprehensive (loss) profit .....	( 13.201)	5.628	486	13.026	5.939
<b>Total comprehensive (loss) income</b> .....	<b>( 43.085)</b>	<b>15.538</b>	<b>97.671</b>	<b>( 26.647)</b>	<b>43.477</b>
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