

Icelandair Group hf.
Condensed Consolidated
Interim Financial Statements
1 January - 30 June 2019

USD

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

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Endorsement and Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 30 June 2019 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements (IAS 34). The interim financial statements comprise the consolidated interim financial statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The condensed consolidated Interim financial statements are stated in thousands of USD. The condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent auditors.

According to the consolidated statement of comprehensive income, loss for the period from 1 January to 30 June 2019 amounted to USD 89.4 million. Total comprehensive loss for the period was USD 86.4 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 430.9 million, including share capital in the amount of USD 44.2 million. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity.

The Group had expected to have 9 Boeing 737 MAX in its fleet in 2019 which accounts for 25% of Icelandair's fleet and 27% of its seat capacity. On 12 March 2019, the Boeing 737 MAX aircraft was grounded which has caused adverse effects in Icelandair's operations. At 30 June 2019, the negative financial effects on EBIT due to the MAX grounding that have been quantified to date are estimated to be around USD 50 million. Total estimated financial effects on EBIT in 2019 that have been quantified to date are estimated to be at least USD 140 million. Icelandair is pursuing compensation from Boeing of all the negative financial effects caused by the Boeing 737 MAX grounding on the operations.

On 13 July 2019, Icelandair Group hf. signed a share purchase agreement with Berjaya Property Ireland Limited, a subsidiary of Berjaya Land Berhad, whereby Berjaya acquire a majority share in Icelandair Hotels and related real estate at year-end 2019. The enterprise value of Icelandair Hotels and related real estate amounts to USD 136 million. Further information can be found in note 19.

Statement by the Board of Directors and the CEO

According to our best knowledge it is our opinion that the condensed consolidated interim financial statements give a true and fair view of the financial performance of the Group for the six month period ended 30 June 2019, its assets, liabilities and consolidated financial position as at 30 June 2019 and its consolidated cash flows for the period then ended.

Further, in our opinion, the condensed consolidated interim financial statements and the endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 30 June 2019 and confirm them by means of their signatures.

Reykjavík, 1. August 2019.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board
Ómar Benediktsson
Guðmundur Hafsteinsson
Heiðrún Jónsdóttir
Svafa Grönfeldt

CEO:

Bogi Nils Bogason

Consolidated Statement of Comprehensive Income for the period from 1 January to 30 June 2019

	Notes	2019 1.4.-30.6.	2018 1.4.-30.6. Restated	2019 1.1.-30.6.	2018 1.1.-30.6. Restated
Operating income					
Transport revenue	7	324.365	294.717	491.838	467.851
Aircraft and aircrew lease		19.197	29.574	44.317	62.968
Other operating revenue	7	59.205	74.614	115.214	135.705
		<u>402.767</u>	<u>398.905</u>	<u>651.369</u>	<u>666.525</u>
Operating expenses					
Salaries and other personnel expenses		136.814	144.985	247.030	258.114
Aviation expenses		160.016	142.475	251.297	243.167
Other operating expenses		80.697	96.753	142.470	168.762
	8	<u>377.527</u>	<u>384.213</u>	<u>640.797</u>	<u>670.043</u>
Operating profit (loss) before depreciation and amortisation / EBITDA		25.240	14.692	10.572	(3.518)
Depreciation and amortisation		<u>(49.343)</u>	<u>(34.491)</u>	<u>(94.254)</u>	<u>(62.493)</u>
Operating loss before net finance costs / EBIT		<u>(24.103)</u>	<u>(19.799)</u>	<u>(83.682)</u>	<u>(66.011)</u>
Finance income		1.060	579	1.492	1.364
Finance costs		<u>(10.042)</u>	<u>(12.554)</u>	<u>(19.768)</u>	<u>(11.931)</u>
Net finance costs	9	<u>(8.982)</u>	<u>(11.975)</u>	<u>(18.276)</u>	<u>(10.567)</u>
Share of (loss) profit of associates, net of tax	17	<u>(7.420)</u>	293	<u>(7.015)</u>	1.559
Loss before tax / EBT		<u>(40.505)</u>	<u>(31.481)</u>	<u>(108.973)</u>	<u>(75.019)</u>
Income tax		6.239	5.752	19.594	14.763
Loss for the period		<u>(34.266)</u>	<u>(25.729)</u>	<u>(89.379)</u>	<u>(60.256)</u>
Other comprehensive (loss) profit:					
Foreign currency translation differences of foreign operations		<u>(1.025)</u>	<u>(5.321)</u>	<u>(2.518)</u>	<u>(5.564)</u>
Net loss on hedge of investment, net of tax		<u>(1.210)</u>	0	<u>(5.252)</u>	0
Effective portion of changes in fair value of cash flow hedge, net of tax		<u>(4.373)</u>	5.932	10.701	13.758
Other comprehensive (loss) profit for the period		<u>(6.608)</u>	611	2.931	8.194
Total comprehensive loss for the period		<u>(40.874)</u>	<u>(25.118)</u>	<u>(86.448)</u>	<u>(52.062)</u>
Loss attributable to:					
Owners of the Company		<u>(32.034)</u>	<u>(25.851)</u>	<u>(87.230)</u>	<u>(60.280)</u>
Non-controlling interest	17	<u>(2.232)</u>	123	<u>(2.149)</u>	24
Loss for the period		<u>(34.266)</u>	<u>(25.728)</u>	<u>(89.379)</u>	<u>(60.256)</u>
Total Comprehensive loss attributable to:					
Owners of the Company		<u>(38.975)</u>	<u>(25.190)</u>	<u>(84.593)</u>	<u>(52.055)</u>
Non-controlling interest		<u>(1.899)</u>	73	<u>(1.855)</u>	7
Total comprehensive loss for the period		<u>(40.874)</u>	<u>(25.117)</u>	<u>(86.448)</u>	<u>(52.062)</u>
Loss per share:					
Basic earnings per share in US cent per share		<u>(0,68)</u>	<u>(0,53)</u>	<u>(1,77)</u>	<u>(1,25)</u>
Diluted earnings per share in US cent per share		<u>(0,68)</u>	<u>(0,53)</u>	<u>(1,77)</u>	<u>(1,25)</u>

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Financial Position as at 30 June 2019

	Notes	30.6.2019	31.12.2018
Assets			
Operating assets	10	653.460	673.420
Right-of-use assets	4	158.389	0
Intangible assets and goodwill		176.178	177.568
Investments in associates		25.428	26.134
Deferred cost		0	91
Receivables and deposits		31.807	17.365
Non-current assets		<u>1.045.262</u>	<u>894.578</u>
Inventories		29.249	25.951
Derivatives used for hedging		509	666
Trade and other receivables		178.687	118.298
Assets classified as held for sale	6	288.334	125.169
Cash and cash equivalents		174.951	299.460
Current assets		<u>671.730</u>	<u>569.544</u>
Total assets		<u>1.716.992</u>	<u>1.464.122</u>
Equity			
Share capital		44.199	39.053
Share premium		174.299	133.513
Reserves	11	18.089	26.262
Retained earnings		194.614	271.034
Equity attributable to equity holders of the Company		<u>431.201</u>	<u>469.862</u>
Non-controlling interest		(338)	1.517
Total equity		<u>430.863</u>	<u>471.379</u>
Liabilities			
Loans and borrowings	12	202.431	147.513
Lease liabilities	4	161.633	0
Payables		4.125	14.554
Deferred tax liabilities		17.082	32.868
Non-current liabilities		<u>385.271</u>	<u>194.935</u>
Loans and borrowings	12	28.074	268.288
Lease liabilities	4	37.134	0
Derivatives used for hedging		19.566	39.660
Liabilities classified as held for sale	6	220.394	52.244
Trade and other payables		251.936	222.766
Deferred income		343.754	214.850
Current liabilities		<u>900.858</u>	<u>797.808</u>
Total liabilities		<u>1.286.129</u>	<u>992.743</u>
Total equity and liabilities		<u>1.716.992</u>	<u>1.464.122</u>

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Changes in Equity for the period from 1 January to 30 June 2019

Attributable to equity holders of the Company							
	Share capital	Share premium	Reserves	Retained earnings	Total	Non-con- trolling interest	Total equity
1 January to 30 June 2018							
Equity 1 January 2018	39.532	140.519	127.407	282.739	590.197	1.338	591.535
Impact of IFRS15 implementation				5.010	5.010		5.010
Restated Equity 1.1.2018	39.532	140.519	127.407	287.749	595.207	1.338	596.545
Purchase of treasury shares	(479)	(7.006)			(7.485)		(7.485)
Total comprehensive loss			8.225	(60.280)	(52.055)	(7)	(52.062)
Effects of profit or loss and dividend from subsidiaries			(54.389)	54.389			
Dividend (0.10 US cent per share)				(7.254)	(7.254)		(7.254)
Equity 30 June 2018	39.053	133.513	81.243	274.604	528.413	1.331	529.744
 1 January to 30 June 2019							
Equity 1 January 2019	39.053	133.513	26.262	271.034	469.862	1.517	471.379
Total comprehensive loss			2.637	(87.230)	(84.593)	(1.855)	(86.448)
Share issued	5.146	40.786			45.932		45.932
Effects of profit or loss and dividend from subsidiaries			(10.810)	10.810			
Equity 30 June 2019	44.199	174.299	18.089	194.614	431.201	(338)	430.863

Information on changes in reserves are provided in note 11.

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Cash Flows for the six months ended 30 June 2019

	Note:	2019	2018	2019	2018
		1.4.-30.6.	1.4.-30.6.	1.1.-30.6	1.1.-30.6
Cash flows from operating activities:					
Loss for the period		(34.266)	(25.728)	(89.379)	(60.256)
Adjustments for:					
Depreciation and amortisation		49.343	34.491	94.254	62.493
Expensed deferred cost		0	2.925	0	4.923
Net finance costs		8.982	11.975	18.276	10.567
Loss (gain) on the sale of operating assets		4.380	(116)	(2.324)	(3.210)
Share of (loss) profit of associates		7.420	(293)	7.015	(1.559)
Income tax		(6.239)	(5.752)	(19.594)	(14.763)
		<u>29.620</u>	<u>17.502</u>	<u>8.248</u>	<u>(1.805)</u>
Changes in:					
Inventories, decrease (increase)		80	(1.773)	(3.550)	(3.697)
Trade and other receivables, decrease (increase)		21.296	5.874	(42.211)	(76.884)
Trade and other payables, decrease		17.064	27.464	43.372	56.605
Deferred income, increase (decrease)		(9.958)	17.384	130.552	167.844
Cash generated from operating activities		<u>28.482</u>	<u>48.949</u>	<u>128.163</u>	<u>143.868</u>
Interest received		397	126	854	841
Interest paid		(9.986)	(3.889)	(15.811)	(9.043)
Income taxes paid		0	(2.626)	0	(6.684)
Net cash from operating activities		<u>48.513</u>	<u>60.062</u>	<u>121.454</u>	<u>127.177</u>
Cash flows used in investing activities:					
Acquisition of operating assets		(30.426)	(41.917)	(202.503)	(178.899)
Proceeds from the sale of operating assets		94	651	151.036	52.808
Acquisition of right-of-use assets		(5.873)	0	(14.341)	0
Acquisition of intangible assets		(556)	(854)	(1.588)	(1.518)
Capitalised deferred cost		0	(165)	0	(1.397)
Non-current receivables, change		1.856	(19.472)	(8.287)	(51.438)
Cash attributable to assets held for sale		(2.901)	0	(15.715)	0
Short term investments, change		0	896	0	(9.576)
Net cash used in investing activities		<u>(37.806)</u>	<u>(60.861)</u>	<u>(91.398)</u>	<u>(190.020)</u>
Cash flows from financing activities:					
Purchase of treasury shares		0	0	0	(7.483)
Dividend paid		0	(7.256)	0	(7.256)
Share issued		45.932	0	45.932	0
Proceeds from non-current borrowing		0	99.795	79.799	99.795
Repayment of non-current borrowings		(131.453)	(1.611)	(220.393)	(4.275)
Repayment of lease liabilities	4	(9.375)	0	(15.826)	0
Proceeds from short term borrowings		(29.746)	(38.516)	(42.882)	2.433
Net cash (used in) from financing activities		<u>(124.642)</u>	<u>52.412</u>	<u>(153.370)</u>	<u>83.214</u>
(Decrease) increase in cash and cash equivalents		(113.935)	51.613	(123.314)	20.371
Effect of exchange rate fluctuations on cash held		(134)	(1.812)	(1.195)	(504)
Cash and cash equivalents at beginning of the period		289.020	191.257	299.460	221.191
Cash and cash equivalents at end of the period		174.951	241.058	174.951	241.058
Investment and financing without cash flow effect:					
Acquisition of right-of-use assets		(3.759)	0	(108.216)	0
New or renewed leases		3.759	0	108.216	0
Acquisition of operating assets		0	(11.770)	0	(64.276)
Non-current receivables		0	0	0	52.506
Dividend issued		0	(7.254)	0	0
Trade and other payables		0	(4.516)	0	11.770

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates. The Group primarily operates in the airline transportation and tourism industry. The Company is listed on the Nasdaq Iceland.

The Group's consolidated financial statements as at and for the year ended 31 December 2018 are available upon request from the Company's registered office at Reykjavíkurlugvöllur in Reykjavík, Iceland or at its website address, www.icelandairgroup.is and at The Icelandic Stock Exchange website, www.nasdaqomx.com.

2. Basis of accounting

The condensed consolidated interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. These interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. Interim Consolidated Financial Statements have been prepared under the historical cost convention, except for financial assets and liabilities, which are valued at fair value through other Comprehensive Income. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2018.

The accounting policies and methods of computation applied in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2018 except for the changes stated in note 4.

These consolidated interim financial statements are presented in U.S. dollars (USD), which is the Group's functional currency. All financial information presented in USD has been rounded to the nearest thousand, except when otherwise indicated.

These interim financial statements were approved for issue by the Board of Directors on 1 August 2019.

3. Use of judgements and estimates

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2018.

Notes, continued

4. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated interim financial statements.

a. Adoption of new and revised Standards

In the current period, the Group, for the first time, has applied IFRS 16 Leases. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease requires and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Group's consolidated interim financial statements is described below.

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

With the application of IFRS 16, the nature of expenses related to operating leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease. As a result, the application of IFRS 16 led to a increase in loss of the period ended 30 June 2019 by USD 3.7 million. The effects on line items in the Consolidated Statement of Comprehensive Income are as follows:

	Amounts without adoption of IFRS 16	Adjustment IFRS 16	2019 1.1.-30.6. As reported
Operating income			
Transport revenue	491.838	0	491.838
Aircraft and aircrew lease	47.950	(3.633)	44.317
Other operating revenue	115.392	(178)	115.214
Total operating income	<u>655.180</u>	<u>(3.811)</u>	<u>651.369</u>
Operating expenses			
Salaries and other personnel expenses	247.030	0	247.030
Aviation expenses	274.234	(22.937)	251.297
Other operating expenses	149.412	(6.942)	142.470
Total operating expenses	<u>670.676</u>	<u>(29.879)</u>	<u>640.797</u>
Operating (loss) profit before depr. and amortisation / EBITDA	(15.496)	26.068	10.572
Depreciation and amortisation	<u>(68.816)</u>	<u>(25.438)</u>	<u>(94.254)</u>
Operating loss before net finance costs / EBIT	(84.312)	630	(83.682)
Net finance costs	(13.050)	(5.226)	(18.276)
Share of loss of associates, net of tax	<u>(7.015)</u>	<u>0</u>	<u>(7.015)</u>
Loss before income tax / EBT	(104.377)	(4.596)	(108.973)
Income tax	18.675	919	19.594
Loss for the period	<u>(85.702)</u>	<u>(3.677)</u>	<u>(89.379)</u>

Notes, continued

4. continued

b. Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which the Group is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The lease payments included in the measurement of the lease liability comprise fixed payments less any incentives, variable lease payments that depend on an index or rate, expected residual guarantees and the exercise price of purchase options if the Group expects to exercise the option.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group remeasures the lease liability if the lease term has changed, when lease payments changes in an index or rate or when a lease contract is modified and the modification is not accounted for as a separate lease.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

c. Aircraft maintenance of leased aircraft

Accounting of the maintenance on leased aircraft, the Group recognizes return obligation liabilities and provisions in respect of the required maintenance obligations within the framework of the lease of aircraft to lessors. The constitution of these return obligation liabilities and provisions depends on the type of maintenance obligations to fulfill before returning these aircraft to the lessors: overhaul and restoration work as well as airframe and engine potential reconstitution. These provisions also consist of compensation paid to lessors in respect of wear of the limited life parts in the engines.

- Overhaul and restoration works (not depending on aircraft utilization)

Costs resulting from work required to be performed just before returning aircraft to the lessors, such as painting of the shell or aircraft overhaul ("C Check") are recognized as provisions as of the inception of the contract. The counterpart of these provisions is booked as a complement through the initial book value of the aircraft right-of-use assets. This complement to the right-of-use asset is depreciated over the lease term.

- Airframe and engine potentials reconstitution (depending on the utilization of the aircraft and its engines)

The airframe and the engine potentials are recognized as a complement to the right-of-use assets since they are considered as full-fledged components, as distinct from the physical components which are the engine and the airframe. These components are the counterparts of the return obligation liability, recognized in its totality at the inception of the contract. When maintenance events aimed at reconstituting these potentials take place, the costs incurred are capitalized. These potentials are depreciated over the period of use of the underlying assets (flight hours for the engine potentials component or straight-line for the airframe potentials component).

- Compensation related to limited life parts (engine components)

As the component approach is not applicable for limited life parts, costs related to the lessor's compensation are booked progressively as provisions as they are used during the lease term and based upon contractual data (e.g. cost of a limited life part).

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient.

Notes, continued

4. continued

Right of use assets

	Land & Real Estate	Aircraft	Other	Total
Recognised on initial application	163.853	62.683	1.039	227.575
Sublease agreements on initial application	(2.333)	(19.213)	0	(21.546)
Adjustments for indexed leases	2.383	0	13	2.396
New or renewed leases	239	122.083	235	122.557
Depreciation	(6.770)	(18.366)	(302)	(25.438)
Reclassified to assets held for sale	(145.273)	0	(82)	(145.355)
Currency translation adjustment	(1.799)	0	(1)	(1.800)
Balance at 30 June 2019	10.300	147.187	902	158.389
Net expenses recognized prior to IFRS 16	6.469	19.304 *	295	26.068
Depreciation in accordance with IFRS 16	(6.770)	(18.366)	(302)	(25.438)
Interest expenses in accordance with IFRS 16	(2.551)	(2.648)	(27)	(5.226)
Loss for the period due to IFRS 16	(2.852)	(1.710)	(34)	(4.596)

* Included in net expenses recognized prior to IFRS16 is aircraft lease as revenues of USD 3.6 million, aircraft lease as expenses of USD 11.7 million and reserves of leased engines of USD 11.3 million.

Lease receivables

	Land & Real Estate	Aircraft	Other	Total
Long term receivables	1.295	9.559	0	10.854
Next year payment of lease receivables	316	6.461	0	6.777
Total lease receivables	1.611	16.020	0	17.631

Long term receivables are included in receivables and other deposit within non-current assets, next year payment are included in trade and other receivables within current assets

Lease liabilities

	2019 1.1.-30.6.
Recognised on initial application	248.433
Adjustments for indexed leases	2.391
New or renewed leases	126.940
Repayment of lease liabilities	(30.167)
Reclassified to liabilities held for sale	(148.692)
Next year payment of lease liabilities	(37.134)
Currency translation adjustment	(138)
Balance at 30 June 2019	161.633

Maturity analysis

	2019 1.1.-30.6.
Repayments in 2019 (6 months)	18.825
Repayments in 2020	30.698
Repayments in 2021	23.008
Repayments in 2022	20.647
Repayments in 2023	25.002
Subsequent repayments	80.587
Total lease liabilities	198.767

Notes, continued

5. Operating segments

Segment information is presented in the consolidated financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure and is divided into three segments; Passenger network, Aviation services and Tourism services.

Inter-segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Passenger network

There are seven subsidiaries within the Passenger network segment. The largest one is Icelandair, the international passenger airline. Icelandair's route network is based on the Hub and Spoke concept between Europe and North America via Iceland, leveraging Iceland's geographical position. This successful strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed Icelandair to constantly grow and expand its route network over the past years.

Other subsidiaries are Air Iceland Connect, the domestic and regional carrier, Icelandair Shared Services, the group's shared service center, Feria, which operates under the name VITA as an outgoing tour operator, Iceedignir, a real estate company that holds the real estate of Icelandair Group, IceCap, a captive insurance company based in Guernsey and A320, a dormant.

From the beginning of the year 2019, Air Iceland Connect and Feria were restated from Aviation services (previously Aviation investment) to Passenger network (previously International flight operations).

Aviation services

There is one subsidiary within the Aviation services segment, Loftleiðir Icelandic, which offers aircraft leasing and consulting services to international passenger airlines and tour operators.

In addition, Icelandair Cargo, a subsidiary of Icelandair ehf. is classified in this segment. Icelandair Cargo offers freight services by utilizing the belly capacity within aircraft of the Icelandair passenger network as well as with their own freighters.

Tourism services

There are two subsidiaries within the Tourism services segment, Icelandair Hotels and Iceland Travel. Icelandair Hotels offers quality hotels both in Reykjavik and around the countryside. Iceland Travel is the largest incoming tour operator in Iceland.

Notes, continued

5. continued

Reportable segments for the six months ended 30 June 2019

	Passenger network	Aviation services	Tourism services	Total
External revenue	497.033	83.371	70.965	651.369
Inter-segment revenue	54.569	2.114	2.959	59.642
Segment revenue	551.602	85.485	73.924	711.011
Depreciation and amortisation	(72.352)	(11.747)	(10.155)	(94.254)
Segment EBIT	(92.731)	11.389	(2.340)	(83.682)
Finance income	1.223	997	267	2.487
Finance costs	(13.242)	(1.117)	(6.404)	(20.763)
Share of profit (loss) of equity accounted investees	499	(7.500)	(14)	(7.015)
Reportable segment loss (profit) before tax / EBT	(104.251)	3.769	(8.491)	(108.973)
Reportable segment assets	1.944.822	121.737	301.020	2.367.579

Reportable segments for the six months ended 30 June 2018 (restated)

External revenue	479.910	97.137	89.478	666.525
Inter-segment revenue	48.094	3.136	4.443	55.673
Segment revenue	528.004	100.273	93.921	722.198
Depreciation and amortisation	(57.604)	(1.631)	(3.258)	(62.493)
Segment EBIT	(72.319)	11.755	(5.447)	(66.011)
Finance income	1.148	372	65	1.585
Finance costs	(10.640)	(518)	(994)	(12.152)
Share of profit of equity accounted investees	1.553	0	6	1.559
Reportable segment (loss) profit before tax / EBT	(80.258)	11.609	(6.370)	(75.019)
Reportable segment assets	2.095.064	87.482	83.087	2.265.633

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

	2019	2018
	1.1.-30.6.	1.1.-30.6.
Revenue		
Total revenue for reportable segments	711.011	722.198
Elimination of inter-segment revenue	(59.642)	(55.673)
Consolidated revenue	651.369	666.525
Profit or loss		
Consolidated loss before tax	(108.973)	(75.019)

Notes, continued

5. continued

Other material items	Reportable segment totals	Adjust- ments	Consoli- dated totals
1.1.-30.6. 2019			
Segment EBIT	(83.682)	0	(83.682)
Finance income	2.487	(995)	1.492
Finance costs	(20.763)	995	(19.768)
Share of loss of associates	(7.015)	0	(7.015)
Capital expenditure	204.091	0	204.091
1.1.-30.6. 2018			
Segment EBIT	(66.011)	0	(66.011)
Finance income	1.585	(221)	1.364
Finance costs	(12.152)	221	(11.931)
Share of profit of associates	1.559	0	1.559
Capital expenditure	181.814	0	181.814

Geographic information

The geographic information analyses the Group's revenue as the majority of the Group's clients are outside of Iceland. Vast majority of the Group's non-current assets are located in Iceland. In presenting the following information the Group's revenues have been based on geographic location of customers:

	2019 1.1.-30.6.	2018 1.1.-30.6.
<i>Revenues</i>		
North America	39%	32%
Iceland	26%	30%
West Continental Europe	14%	9%
Scandinavia	7%	6%
United Kingdom	4%	9%
Other	10%	14%
Total revenues	100%	100%

Notes, continued

6. Assets held for sale

Management has committed to a plan to sell its Tourism services segment following a strategic decision to place greater focus on the Group's key competencies, i.e. the airline industry.

As these operations are deemed immaterial on the consolidated statement of comprehensive income, it is included and not shown separately as discontinued operations. In the consolidated statement of financial position, assets and liabilities of this segment are stated as held for sale. Comparative amounts have not been re-presented. The impact on the consolidated financial statements as a whole is presented below.

a. Impacts on consolidated financial statements

(i) Comprehensive loss for the Tourism services

	2019 1.4.-30.6.	2018 1.4.-30.6. Restated	2019 1.1.-30.6.	2018 1.1.-30.6. Restated
Revenue	47.907	74.530	76.636	96.479
Elimination of inter-segment revenue	(3.342)	(4.174)	(5.368)	(6.887)
External revenue	44.565	70.356	71.268	89.592
Expenses	(47.734)	(76.601)	(85.547)	(102.472)
Elimination of expenses of inter-segment sales	3.342	4.174	5.368	6.887
External expenses	(44.392)	(72.427)	(80.179)	(95.585)
Profit (loss) from operating activities	173	(2.071)	(8.911)	(5.993)
Income tax	(180)	426	1.734	1.196
Loss from Tourism services, net of tax	(7)	(1.645)	(7.177)	(4.797)
Basic earnings per share in US cent per share	0,00	(0,03)	0,14	(0,10)
Diluted earnings per share in US cent per share	0,00	(0,03)	0,14	(0,10)

(ii) Cash flows from (used in) Tourism services

Net cash from operating activities	8.192	6.541	13.137	6.646
Net cash used in investing activities	(1.629)	(6.042)	(3.421)	(11.374)
Net cash (used in) from financing activities	(2.618)	12.350	(5.084)	14.741
Net cash flows for the period	3.945	12.849	4.632	10.013

(iii) Effect of possible disposal on the financial position of the Group

The assets and liabilities of the Tourism services segment are presented as held for sale in the consolidated statements of financial position at end of June 2019 following a strategic decision by the Board. The hotel operation was held for sale at year end 2018. The carrying amounts of the major classes of assets and liabilities were as follows:

	30.6.2019	31.12.2018
Operating assets	96.885	102.491
Right-of-use assets	145.355	0
Intangible assets and goodwill	5.977	5.457
Investments in associates	970	1.055
Inventories	705	755
Trade and other receivables	22.726	11.377
Cash and cash equivalents	15.715	4.034
Deferred tax liabilities	(1.542)	(3.191)
Loans and borrowings	(33.293)	(35.644)
Lease liabilities	(148.692)	0
Trade and other payables	(24.876)	(8.683)
Deferred income	(11.990)	(4.726)
Net assets and liabilities	67.940	72.925

On 13 July 2019, Icelandair Group signed a share purchase agreement with Berjaya Property Ireland Limited, a subsidiary of Berjaya Land Berhad, whereby Berjaya acquire a majority share in Icelandair Hotels and related real estates at year-end. Further information can be found in note 19, Events After the Reporting Period.

Notes, continued

7. Operating income

Transport revenue is specified as follows:

	2019 1.4.-30.6.	2018 1.4.-30.6. Restated	2019 1.1.-30.6.	2018 1.1.-30.6. Restated
Passengers	281.289	259.318	416.731	401.289
Passenger ancillary revenues	27.589	21.127	45.142	37.305
Cargo and mail	15.487	14.272	29.965	29.257
Total transport revenue	<u>324.365</u>	<u>294.717</u>	<u>491.838</u>	<u>467.851</u>

Other operating revenue is specified as follows:

Sale in hotels and airports	23.803	24.842	42.412	44.683
Revenue from tourism	29.280	34.970	46.433	59.705
Aircraft and cargo handling services	6.775	6.940	12.062	12.693
Maintenance revenue	269	811	2.003	1.630
(Loss) gain on sale of operating assets	(4.393)	116	2.311	3.210
Other operating revenue	3.471	6.935	9.993	13.784
Total other operating revenue	<u>59.205</u>	<u>74.614</u>	<u>115.214</u>	<u>135.705</u>

8. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	93.536	96.830	167.613	169.937
Salary-related expenses	26.697	28.694	49.498	52.044
Other personnel expenses	16.581	19.461	29.919	36.133
Total salaries and personnel expenses	<u>136.814</u>	<u>144.985</u>	<u>247.030</u>	<u>258.114</u>

Aviation expenses are specified as follows:

Aircraft fuel	91.849	77.340	143.687	126.887
Aircraft lease	16.830	8.870	20.800	17.174
Aircraft handling, landing and communication	39.305	36.626	64.044	60.795
Aircraft maintenance expenses	12.032	19.639	22.766	38.311
Total aviation expenses	<u>160.016</u>	<u>142.475</u>	<u>251.297</u>	<u>243.167</u>

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures	4.204	9.383	8.664	18.080
Communication	6.672	6.357	13.863	12.240
Advertising	5.219	7.500	12.303	16.083
Booking fees and commission expenses	20.813	18.477	32.506	28.689
Cost of goods sold	3.512	3.363	6.549	6.944
Customer services	17.824	18.324	28.884	29.350
Tourism expenses	13.548	22.216	22.316	38.194
Allowance for bad debt	1.068	899	1.023	(18)
Other operating expenses	7.837	10.234	16.362	19.200
Total other operating expenses	<u>80.697</u>	<u>96.753</u>	<u>142.470</u>	<u>168.762</u>

Notes, continued

9. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2019 1.4.-30.6.	2018 1.4.-30.6.	2019 1.1.-30.6.	2018 1.1.-30.6.
Interest income on bank deposits	651	338	749	769
Operating lease interest income	222	0	453	0
Other interest income	(245)	241	(326)	595
Net foreign exchange gain	432	0	616	0
Finance income total	<u>1.060</u>	<u>579</u>	<u>1.492</u>	<u>1.364</u>
Interest expenses on loans and borrowings	7.559	4.475	13.687	8.425
Interest on lease liabilities	2.335	0	5.677	0
Other interest expenses	148	255	404	498
Net foreign exchange loss	0	7.824	0	3.008
Finance costs total	<u>10.042</u>	<u>12.554</u>	<u>19.768</u>	<u>11.931</u>
Net finance costs	<u>(8.982)</u>	<u>(11.975)</u>	<u>(18.276)</u>	<u>(10.567)</u>

10. Operating assets

Acquisition of operating assets in the first 6 months of 2019 amounted to USD 202 million. Thereof, there were 2 Boeing 737 MAX 8 aircraft, 1 Boeing 737 MAX 9 aircraft, overhaul of own engines and aircraft spare parts in the amount of USD 186 million.

11. Equity

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Other reserves	Total reserves
Reserves 1.1.2018	13.914	42.240	71.253	127.407
Changes during the period	13.758	(5.533)	(54.389)	(46.164)
Reserves 30.6.2018	<u>27.672</u>	<u>36.707</u>	<u>16.864</u>	<u>81.243</u>
Reserves 1.1.2019	(26.434)	35.570	17.126	26.262
Changes during the period	10.700	(2.812)	(16.061)	(8.173)
Reserves 30.6.2019	<u>(15.734)</u>	<u>32.758</u>	<u>1.065</u>	<u>18.089</u>

12. Loans and borrowings

This note provides information on the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

	30.6.2019	31.12.2018
Non-current loans and borrowings are specified as follows:		
Secured bank loans	230.505	203.093
Unsecured loans	0	212.708
	<u>230.505</u>	<u>415.801</u>
Current maturities	(28.074)	(268.288)
Total non-current loans and borrowings	<u>202.431</u>	<u>147.513</u>

Terms and debt repayment schedule:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance	
				30.6.2019	31.12.2018
Secured bank loans	USD	4,4%	2022-2028	125.558	49.035
Secured bank loans	EUR	1,2%	2026-2028	69.296	72.983
Secured bank loans	ISK	5,1%	2023-2036	35.651	38.193
Unsecured bond issue	USD			0	212.708
Secured bank loans - short term	USD			0	30.022
Secured bank loans - short term	ISK			0	12.860
Total interest-bearing liabilities				<u>230.505</u>	<u>415.801</u>

At the end of Q2 2019, the Company had unsecured undrawn credit lines in the amount of USD 42 million (equivalent) denominated in USD and ISK.

Notes, continued

13. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	30.6.2019	31.12.2018
Repayments in 2019 (6 months)(2018: 12 months)	16.244	268.287
Repayments in 2020	28.415	12.809
Repayments in 2021	28.525	12.919
Repayments in 2022	32.352	16.674
Repayments in 2023	41.200	26.494
Subsequent repayments	83.769	78.618
Total loans and borrowings	230.505	415.801

14. Financial instruments and fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows. The table does not include fair value information for financial assets and liabilities measured at fair value if the carrying amount is a reasonable approximation of fair value:

	30.6.2019		31.12.2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Unsecured bond issue	0	0	(212.708)	(198.171)
Secured loans	(230.505)	(234.532)	(203.093)	(221.058)
Total	(230.505)	(234.532)	(415.801)	(419.229)

15. Capital commitments

In 2013, Icelandair Group and Boeing signed an agreement for the purchase of 16 Boeing 737 Max8 and 737 Boeing Max9 aircraft with an option to purchase additional 8 aircraft.

In Q1 2018, Icelandair took delivery of the first 3 Boeing 737 Max8 aircraft from Boeing.

In March 2019, Icelandair took delivery of 2 Boeing 737 Max8 and 1 Boeing 737 Max9. All 3 aircraft were financed through sale and leaseback agreements which generated a profit of USD 6.6 million which is included in operating income in Q1 2019. Reassessment of IFRS16 was made in Q2 2019 where USD 4.4m of USD 6.6 million profit was deducted from gain on the sale of operating assets and deducted from right-of-use assets.

The delivery plan for future aircraft is as follows:

	2019	2020	2021
Boeing 737 Max8	1	2	1
Boeing 737 Max9	2	3	1
Total	3	5	2

In Q2 2019, Icelandair was expected to take delivery of the other 3 Boeing 737 MAX aircraft, i.e. 1 Boeing 737 MAX8 and 2 Boeing 737 MAX9. However, due to the grounding of the Boeing 737 MAX which was initiated in March 2019 and still persists, the delivery dates of these aircraft and all deliveries of future aircraft is uncertain at this point in time.

Notes, continued

16. Group entities

The Company held ten subsidiaries at the end of June 2019.

	Share
Passenger network:	
A320 ehf.	100%
Flugfélag Íslands ehf. (Air Iceland Connect)	100%
FERIA ehf. (VITA)	100%
Fjárvakur - Icelandair Shared Services ehf. (Icelandair Shared Services)	100%
IceCap Insurance PCC Ltd.	100%
Iceeignir ehf.	100%
Icelandair ehf.	100%
Aviation services *:	
Lofleiðir - Icelandic ehf.	100%
Tourism services:	
Iceland Travel ehf.	100%
Flugleiðahótel ehf. (Icelandair Hotels)	100%

* Icelandair Cargo ehf. is a subsidiary of Icelandair ehf. and is therefore not listed herein but is classified under Aviation services.

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

17. Share in associates

A 36% stake in Cabo Verde Airlines (CVA) is classified as an associate. The Group views this investment as a long term development project and believes that there are opportunities to build CVA up as a strong hub and spoke airline with Cape Verde as a connecting hub between continents and at the same time develop Cape Verde as tourist destination. According to the CVA's business plan it was expected that it would be loss making during the first two years after the Group's acquisition and would become profitable in 2021. The operating results of CVA for the first six months of the year are in line with the business plan. The Group's share in the loss amounted to USD 5.2 million and is fully accounted for. At the end of June, the Group had no material balance sheet exposure to CVA due to the investment.

18. Ratios

The Group's primary ratios are specified as follows:	30.6.2019	31.12.2018
Current ratio	0,75	0,71
Equity ratio	0,25	0,32
Intrinsic value of share capital	9,75	12,06

19. Events After the Reporting Period

On 13 July 2019, the Company signed a share purchase agreement (the "Agreement") with Berjaya Property Ireland Limited ("Berjaya"), a subsidiary of Berjaya Land Berhad, whereby Berjaya acquires a majority share in Icelandair Hotels and related real estate (the "Hotels") at year-end 2019.

According to the Agreement Berjaya will acquire a 75% equity share in Icelandair Hotels, subject to the Company holding a 25% equity share for a minimum of 3 years. Alongside the signing of the Agreement, the Company and Berjaya, have entered into a put and call option agreement regarding the remaining 25% equity share.

The enterprise value of the Hotels amounts to USD 136 million. The final purchase price of Berjaya's 75% share will be determined by the amount of net working capital and net interest-bearing debt at the date of delivery.

The purchase price is payable in cash and will be paid to the Company in tranches. The completion of the transaction and final payment will take place at year-end 2019, upon the delivery of the shares. The Agreement is subject to various conditions, such as the necessary approvals pertaining to requirements under Act no. 19/1966 and the refinancing of the Hotels. Berjaya's due diligence on the Hotels has already been completed.

At year-end 2019 the Company will hold the Hotels as a 25% minority stake and account them as a associate in the Company's financial statement.

The Company's shares in Lindarvatn ehf., the company that owns the property housing the upcoming Iceland Parliament hotel, are not part of the sold entity.