Icelandair Group hf.

Consolidated Financial Statements for the year 2010

ISK

Icelandair Group hf.
Reykjavíkurflugvöllur
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Reg. no. 631205-1780

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Endorsement and Statement by the Board of Directors and the CEO

Operations in the year 2010

The financial statements comprise the consolidated financial statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The Group operates in the airline and tourism sectors.

For the past two years the Group has been working on improving its debt maturity profile and equity ratio. On 21 October 2010 the Company and its lenders finalized all documentation related to the restructuring. Investors have invested ISK 8.1 billion of new equity which was paid to the Company on 2 November 2010 and 6 January 2011. Also as part of the restructuring, the Group’s largest creditors converted debt into equity amounting to ISK 3.6 billion. Formal closing of the financial restructuring took place on 10 February 2011. More detailed information regarding the restructuring is in note 56.

According to the consolidated statement of comprehensive income, profit for the year 2010 amounted to ISK 4,556 million. Total comprehensive income for the year amounted to ISK 2,144 million. According to the consolidated statement of financial postition, equity at the end of the year amounted to ISK 28,403 million, including share capital in the amount of ISK 4,975 million. Reference is made to the notes to the consolidated financial statements regarding information on changes in equity.

The Board of Directors proposes that no dividend will be paid to shareholders in the year 2011.

Share capital and Articles of Association

The share capital amounted to ISK 5,000 million at the end of the year, from which the Company held own shares in the amount of ISK 25 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 (OMX Iceland). At year end investors had unconditionally subscribed for 1,059 million of new shares at the prize 2.5. The new shares are accounted for as equity at year end 2010. The Company has the right to purchase up to 10% of the nominal value of the shares of the Company according to the Company's Act.

The Company's Board of Directors comprises five members and three alternative members elected on the annual general meeting for a term of one year. Those persons willing to stand for election must give formal notice thereof to the Board of Directors at least five days before the annual general meeting. The Company's Articles of Association may only be amended at a legitimate shareholders' meeting, provided that amendments and their main aspects are clearly stated in the invitation to the meeting. A resolution will only be valid if it is approved by at least 2/3 of votes cast and is approved by shareholders controlling at least 2/3 of the share capital represented at the shareholders' meeting.

Shareholders at the end of the year 2010 were 1,478 but were 833 at the beginning of the year, an increase of 645 during the year. Two shareholders held more than 10% of outstanding shares each at year end 2010. They are Framtakssjódur Íslands slhf. with 29.0% share and Íslandsbanki hf. with 20.6% share.

Information on matters related to share capital is disclosed in note 33.

Endorsement and statement by the Board of Directors and the CEO, contd.:

Statement by the Board of Directors and the CEO

The annual consolidated financial statements for the year ended 31 December 2010 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.

According to our best knowledge it is our opinion that the annual consolidated financial statements give a true and fair view of the consolidated financial performance of the Company for the financial year 2010, its assets, liabilities and consolidated financial position as at 31 December 2010 and its consolidated cash flows for the financial year 2010.

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 annual consolidated financial statements of Icelandair Group hf. for the year 2010 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, 14 February 2011

Board of Directors:

Sigurður Helgason, chairman of the board
Finnbogi Jónsson
Herdís Dröfn Fjeldsted
Katrín Olga Jóhannesdóttir
Úlfar Steindórsson
Magnús Magnússon
Vilborg Lofts

CEO:

Björgólfur Jóhannsson

Independent Auditors' Report

To the Board of Directors and Shareholders of Icelandair Group hf.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Icelandair Group hf., which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Icelandair Group as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Board of Directors report

Pursuant to the legal requirement under Article 106, Paragraph 1, Item 5 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors accompanying the financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the Financial Statements.

Reykjavík, 14 February 2011

KPMG ehf.

Jón S. Helgason
Guðný H. Guðmundsdóttir

Consolidated Statement of Comprehensive Income for the year 2010

	Notes	2010	2009
Continuing operation			
Operating income			
Transport revenue	10	53,944	47,139
Aircraft and aircrew lease		19,972	19,425
Other operating revenue		14,099	13,757
		88,015	80,321
Operating expenses			
Salaries and other personnel expenses	11	20,415	18,652
Aircraft fuel		14,927	13,250
Aircraft and aircrew lease		11,866	12,797
Aircraft handling, landing and communication		6,103	5,881
Aircraft maintenance expenses		6,475	6,825
Other operating expenses		15,651	14,781
		75,437	72,186
Operating profit before depreciation and amortisation (EBITDA)		12,578	8,135
Depreciation, amortisation and impairment losses	13	(6,324)	(6,652)
Operating profit (EBIT)		6,254	1,483
Gain on disposals in relation to financial restructuring	7	4,245	0
Profit before net finance expense		10,499	1,483
Finance income		255	163
Finance costs		(3,787)	(6,163)
Net finance costs	14	(3,532)	(6,000)
Share of (loss) profit of associates, net of income tax	24	(391)	48
Profit (loss) before income tax		6,576	(4,469)
Income tax	15,16	(1,458)	485
Profit (loss) from continuing operations		5,118	(3,984)
Discontinued operation			
Loss from discontinued operation (net of income tax)	6	(562)	(6,681)
Profit (loss) for the year		4,556	(10,665)
Other comprehensive income			
Foreign currency translation differences for foreign operations		(615)	477
Foreign currency translation differences reclassified to profit or loss		(2,120)	0
Net profit on hedge of net investment in foreign operation, net of tax		49	(16)
Net investment hedge transferred to profit or loss		0	825
Effective portion of changes in fair value of cash flow hedge, net of tax		274	5,005
Other comprehensive (loss) income for the year		(2,412)	6,291
Total comprehensive income (loss) for the year		2,144	(4,374)

The notes on pages 11 to 48 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income for the year 2010, contd.:

	Notes	2010	2009
Profit (loss) attributable to			
Owners of the Company		4,564	(10,319)
Non-controlling interest		(8)	(346)
Profit (loss) for the period		4,556	(10,665)
Total Comprehensive income (loss) attributable to			
Owners of the Company		2,152	(4,919)
Non-controlling interest		(8)	545
Total comprehensive income (loss) for the year		2,144	(4,374)
Earnings per share:			
Basic earnings per share (ISK)	34	3.07	(10.94)
Diluted earnings per share (ISK)	34	3.07	(10.94)
Earnings per share from continuing operations			
Basic earnings per share (ISK)	34	3.45	(4.09)
Diluted earnings per share (ISK)	34	3.45	(4.09)

The notes on pages 11 to 48 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position as at 31 December 2010

	Notes	2010	2009
Assets:			
Operating assets	18-21	27,594	27,014
Intangible assets	22-23	21,212	23,598
Investments in associates	24	178	545
Prepaid aircraft acquisitions	25	0	1,134
Long-term cost	26	918	1,347
Long-term receivables and deposits	27	1,424	3,449
Deferred tax asset	41	0	140
Total non-current assets		51,326	57,227
Inventories	28	1,580	1,393
Trade and other receivables	29	14,574	9,725
Prepayments	30	950	1,350
Assets classified as held for sale	9	2,815	17,500
Marketable securites	31	1,306	0
Cash and cash equivalents	32	11,688	1,909
Total current assets		32,913	31,877
Total assets		84,239	89,104
Equity:			
Share capital		4,975	975
Share premium		19,013	25,450
Reserves		4,387	6,899
Accumulated deficit		0	(18,755)
Total equity attributable to equity holders of the Company	33	28,375	14,569
Non-controlling interest		28	36
Total equity		28,403	14,605
Liabilities:			
Loans and borrowings	35-38	21,356	13,676
Prepayments	39	0	2,254
Long-term payables	40	4,745	3,688
Deferred income tax liability	41	1,267	0
Total non-current liabilities		27,368	19,618
Loans and borrowings	35	3,248	22,714
Trade and other payables	43	14,048	14,392
Deferred income	44	8,807	7,178
Liabilities classified as held for sale	9	2,365	10,597
Total current liabilities		28,468	54,881
Total liabilities		55,836	74,499
Total equity and liabilities		84,239	89,104

The notes on pages 11 to 48 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year 2010

	Attributable to equity holders of the Company						
2009	**Share capital**	**Share premium**	**Other reserves**	**Accumu-lated deficit**	**Total**	**Non-con-trolling interest**	**Total equity**
Equity 1.1.2009	975	25,450	1,856	(8,216)	20,065	15	20,080
Total comprehensive income			5,400	(10,319)	(4,919)	545	(4,374)
Share based payments			(53)	86	33		33
Sale of non-controlling interest			(304)	(306)	(610)	(524)	(1,134)
Balance at 31 December 2009	975	25,450	6,899	(18,755)	14,569	36	14,605

2010	**Share capital**	**Share premium**	**Other reserves**	**Accumu-lated deficit**	**Total**	**Non-con-trolling interest**	**Total equity**
Equity 1.1.2010	975	25,450	6,899	(18,755)	14,569	36	14,605
Total comprehensive income			(2,412)	4,564	2,152	(8)	2,144
Share capital increase	4,000	7,654			11,654		11,654
Share premium transferred to accumulated deficit		(14,091)		14,091	0		0
Share based payments reversed			(100)	100	0		0
Balance at 31 December 2010	4,975	19,013	4,387	0	28,375	28	28,403

Changes in other reserves are shown in note 33.

The notes on pages 11 to 48 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year 2010

	Notes	2010	2009
Cash flows from operating activities:			
Profit (loss) for the year		4,556	(10,665)
Adjustments for:			
Depreciation and amortisation	13	6,324	6,652
Depreciation and amortisation of discontinued operations		428	265
Other operating items	53	1,581	9,121
Working capital from operations		12,889	5,373
Net change in operating assets and liabilities	54	1,440	3,408
Net cash from operating activities		14,329	8,781
Cash flows from investing activities:			
Acquisition of operating assets	18	(2,190)	(2,226)
Proceeds from the sale of operating assets		3,487	942
Acquisition of intangible assets	22	(214)	(92)
Prepaid aircraft acquisitions, increase		(38)	(61)
Cash of disposed subsidiaries, change		(1,530)	(1,413)
Cash of subsidiaries held for sale, change		(22)	(221)
Acquisition of long-term cost		(2,573)	(3,543)
Long-term receivables, decrease (increase)		218	(1,185)
Marketable securites, change		(1,306)	0
Net cash used in investing activities		(4,168)	(7,799)
Cash flows from financing activities:			
Paid in share capital		5,407	0
Proceeds from non-controlling interest		0	262
Proceeds from long term borrowings		0	4,211
Repayment of long term borrowings		(5,063)	(3,355)
Proceeds from long term payables		252	248
Repayment of short term borrowings		(645)	(4,649)
Net cash used in financing activities		(49)	(3,283)
Increase (decrease) in cash and cash equivalents		10,112	(2,301)
Effect of exchange rate fluctuations on cash held		(333)	145
Cash and cash equivalents at beginning of the year		1,909	4,065
Cash and cash equivalents at 31 December	32	11,688	1,909
Investment and financing without cash flow effect:			
Issued share capital		6,247	0
Changes in borrowings		(11,199)	0
Disposals of subsidiaries		7,600	0
Other receivables		(2,648)	0

Interests paid and received are shown in note 55.

The notes on pages 11 to 48 are an integral part of these consolidated financial statements.

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a limited liability company incorporated and domiciled in Iceland. The address of the Company´s registered office is at Reykjavíkurflugvöllur in Reykjavík, Iceland. The consolidated financial statements of the Company as at and for the year ended 31 December 2010 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´s operations are in the airline transportation and tourism industry. The Company is listed on the Iceland Stock Exchange.

2. Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

The financial statements were approved and authorised for issue by the Board of Directors on 14 February 2011.

b. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. The methods used to measure fair values are discussed further in note 4.

c. Functional and presentation currency

These consolidated financial statements have been prepared in Icelandic krona (ISK), which is the Company's functional currency. All financial information presented in ISK has been rounded to the nearest million.

d. Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are: business combinations, measurement of the recoverable amounts of cash-generating units, utilisation of tax losses, accounting for an arrangement containing a lease, long-term cost, provisions and valuation of financial instruments.

3. Significant accounting principles

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. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

3a. contd.:

(ii) **Loss of control**

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee.

(iii) **Investments in associates**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The Group´s investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total recognised profit or loss and other comprehensive income of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount including any long-term investments is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has an obligations or made payments on behalf of the investee.

(iv) **Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Foreign currency

(i) **Foreign currency transactions**

Transactions in 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 foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign 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 foreign 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 in terms of 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 that is effective (see (iii) below), or qualifying cash flow hedges, which are recognised in other comprehensive income.

(ii) **Foreign operations and Icelandic subsidiaries with foreign functional currency**

The assets and liabilities of foreign operations and Icelandic subsidiaries with functional currency other than Icelandic krona, including goodwill and fair value adjustments arising on acquisitions, are translated to Icelandic kronas at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Icelandic kronas at exchange rates at the dates of the transactions. Foreign currency differences arising on retranslation are recognised in other comprehensive income. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign curreny translation reserve (FCTR) within equity is transferred to profit or loss as part of the profit or loss on disposal.

3b. contd.:

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

(iii) **Hedge of net investment in foreign operations**

The Group applies hedge accounting to foreign currency differences arising between the functional currency of the foreign operation and the Company's functional currency (ISK), regardless of whether the net investment is held directly or through an intermediate parent.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

c. Financial instruments

(i) **Non-derivative financial assets**

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets including assets designated at fair value through profit or loss are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

3c. contd.:

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalent 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 recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities including liabilities designated at fair value through profit or loss are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings and trade and other payables.

(iii) **Derivative financial instruments, including hedge accounting**
The Group generally holds derivative financial instruments to hedge its foreign currency, fuel price and interest rate risk exposures (see note 45). Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below. The Group holds no trading derivatives.

On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company 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 could ultimately affect reported net income.

Cash flow hedges
When a derivative is designated as the hedging instrument in a hedge of the variability in cashflows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified in profit or loss.

3c. contd.:

Economic hedges
Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit or loss as foreign currency gains and losses.

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.

(iv) **Compound financial instruments**
Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instruments is measured at amortised cost using the effective interest method. The equity component of a compound financial instruments is not remeasured subsequent to initial recognition.

(v) **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 of share capital
When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is deducted 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 transferred to / from share premium.

d. Operating assets
(i) **Recognition and measurement**
Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

3d. contd.:

When parts of an item of operating assets have different useful lives, they are accounted for as separate items (major components) of operating assets.

Gains and losses on disposal of an item of operating assets are determined by comparing the proceeds from disposal with the carrying amount of operating assets and are recognised net within "other operating revenue" in the statement of comprehensive income.

(ii) **Aircrafts and flight equipment**

Aircrafts and flight equipment, e.g. aircraft engines and aircraft spare parts, are measured at cost less accumulated depreciation and accumulated impairment losses. When aircrafts are acquired the purchase price is divided between the aircraft itself and engines. Aircrafts are depreciated over the estimated useful life of the relevant aircraft until a residual value is met. Engines are depreciated according to flown cycles. When an engine is overhauled the cost of the overhaul is capitalised and the remainder of the cost of the previous overhaul that has not already been depreciated, if there is any, is expensed in full.

(iii) **Subsequent costs**

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss 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.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives for the current and comparative periods are as follows:

	Useful life
Aircrafts and flight equipment	4-20 years
Engines	Cycles
Buildings	17-50 years
Other property and equipment	3-8 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

e. Intangible assets

(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 stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

Goodwill, trademarks and slots with indefinite useful lives are stated at cost less accumulated impairment losses.

3e. contd.:

(ii) **Other intangible assets**

Other intangible assets that have finite useful lives are measured at cost less accumulated amortisation and accumulated 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 periods are as follows:

	Useful life
Software	3 years
Customer relations	7-10 years
Favourable aircraft lease contracts	2-3 years
Other intangible assets	6-10 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(iii) **Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

f. Prepaid aircraft acquisitions

Prepaid aircraft acquisitions consist of pre-payments on Boeing aircrafts that are still to be delivered. Borrowing cost related to these pre-payments is capitalised based on the interest rate on the directly related financing.

g. Leased assets

All leases are operating leases and the leased assets are not recognised in the Group's statement of financial position.

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 in 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. Aircraft equipment is capitalised at the foreign exchange rate ruling at the date of acquisition.

i. Impairment

(i) **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 objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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 through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3i. contd.:

(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. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated 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 CGU. 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.

An impairment loss is recognised if the carrying amount of an asset or its 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 the 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

j. Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale or distribution, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets or investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3. contd.:

k. Employee benefits

(i) Defined contribution plans

Obligations for contributions to pension plans are recognised as an expense in the statement of comprehensive income when they are due.

(ii) Share-based payment transactions

The grant date fair value of share-based payment awards to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are met.

The fair value of employee share-based payment awards is measured using a binomial lattice model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility based on weighted average historic volatility adjusted for changes expected due to publicly available information, weighted average expected life of the instruments based on historical experience and general option holder behaviour, expected dividends, and the risk-free interest rate based on government bonds. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Share-based payment arrangements in which the Group receives services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

l. Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, 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.

(i) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(ii) Overhaul commitments relating to aircrafts under operating lease

With respect to the Group´s operating lease agreements, where the Group has a commitment to maintain the aircraft, provision is made during the lease term for the obligation based on estimated future cost of major airframe and certain engine maintenance checks by making appropriate charges to the statement of comprehensive income 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.

m. 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.

3. contd.:

n. Operating income

(i) **Transport revenue**

Passenger ticket sales are not recognised as revenue until transportation has been provided. Sold refundable documents not used within twelve months from the month of sale are recognised as revenue. Sold not used, non-refundable documents are recognized as revenue two months after expected transport. Revenue from mail and cargo transportation is recognised after transportation has been provided.

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 the 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 estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and revenue is recognised only when the points are redeemed and the Group has fulfilled its obligations to supply 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.

(ii) **Aircraft and aircrew lease**

Revenue from aircraft and aircrew lease is recognised in profit or loss when the service has been provided at the end of each charter flight.

(iii) **Other operating revenue**

Revenues include revenues from tourism, sales at airports and hotels, sold maintenance revenues and other revenues. Revenue is recognised in profit or loss when the service has been provided or sale completed by delivery of product.

Gain on sale of operating assets is recognised in profit or loss after the risks and rewards of ownership have been transferred to the buyer.

o. 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. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

p. 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 the discount 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.

q. Income tax

Income tax on the profit or loss for the year comprises only deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

3q. contd.:

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised 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 utilised. 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 realised.

r. Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

s. 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 own shares held, for the effects of all dilutive potential ordinary shares.

t. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues 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 are the aircraft fleet, the majority of which are registered in Iceland. Since the Group's aircraft fleet is employed flexibly across its route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

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

Segment results, assets and liabilities 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.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

u. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these consolidated financial statements. None of these will have material effect on the consolidated financial statements of the Group.

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Operating assets

The fair value of operating assets recognised as a result of a business combination is based on market values. The market value of aircrafts and properties is the estimated amount for which they could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

(ii) Intangible assets

The fair value of intangible assets acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

(iv) Receivables

The fair value of receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value is determined for disclosure purposes.

(v) Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market 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. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(vi) 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 the 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.

(vii) Deferred income

The amount allocated to the frequent flyers 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 servicess 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. Such amount is recognised as deferred income.

5. Segment reporting

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 two segments; Route network and Tourism services.

As a part of the restructuring plan, the Board of Directors redefined the business model of the company, leading to subsidiaries being split between core and non-core. Accordingly the main focus of the Group will be on scheduled airline operations and tourism evolving around Iceland, and related services. Bluebird Cargo ehf., IG Invest ehf. and 67% share in Icelease ehf. were divested at year end 2010 and are therefore included in the segment reporting. Smartlynx Latvia and the 30% share in Travel Service are defined as non-core, leading to reclassification on these companies as discontinued and held for sale.

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

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

Route network
Four companies are categorised as being part of the Route Network focus of the Group: Icelandair, Icelandair Cargo, Bluebird Cargo and Icelandair Ground Services.

Tourism services
Seven companies are catagorized as being part of the Tourism Services focus of the Group: Iceland Travel, Icelandair Hotels, Air Iceland, Loftleidir-Icelandic, Icelandair Shared Services, Icelease, and IG Invest.

Information about reportable segments

	Route network		Tourism services		Total	
	2010	2009	2010	2009	2010	2009
External revenues	63,693	56,609	24,233	23,712	87,926	80,321
Inter-segment revenue	17,120	16,617	1,667	935	18,787	17,552
Segment EBITDAR*	14,806	11,346	6,792	6,792	21,598	18,138
Segment EBITDA	10,986	7,087	1,936	1,751	12,922	8,838
Finance income	721	1,033	251	208	972	1,241
Finance costs	(1,756)	(1,768)	(868)	(436)	(2,624)	(2,204)
Depreciation and amortisation	(4,531)	(4,520)	(1,786)	(2,034)	(6,317)	(6,554)
Discontinued operation	0	0	0	(335)	0	(335)
Reportable segment profit (loss) before income tax	5,420	1,832	(467)	(846)	4,953	986
Reportable segment assets	49,968	54,930	14,395	18,600	64,363	73,530
Investment in associates	4	4	125	421	129	425
Capital expenditure	3,532	4,201	1,298	1,087	4,830	5,288
Reportable segment liabilities	38,035	47,606	11,502	17,620	49,537	65,226

*EBITDAR means EBITDA before operating lease expenses.

5. contd.:

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

	2010	2009
Revenues		
Total revenue for reportable segments	106,713	97,873
Other revenue	89	0
Elimination of inter-segment revenue	(18,787)	(17,552)
Consolidated revenue	88,015	80,321
Profit or loss		
Total profit for reportable segments	4,953	986
Unallocated amounts:		
Gain on disposals in relation to financial restructuring	4,245	0
Corporate expenses	(2,622)	(5,455)
Consolidated profit (loss) from continuing operations before tax	6,576	(4,469)
Assets		
Total assets for reportable segments	64,363	73,530
Other assets	19,747	15,149
Investments in equity-accounted investees	129	425
Consolidated total assets	84,239	89,104
Liabilities		
Total liabilities for reportable segments	49,537	65,226
Other liabilities	6,299	9,273
Consolidated total liabilities	55,836	74,499

Other material items 2010

	Reportable segment totals	Adjust- ments	Consolid- ated totals
Segment EBITDAR	21,598	(344)	21,254
Segment EBITDA	12,922	(344)	12,578
Finance income	972	(717)	255
Finance costs	(2,624)	(1,163)	(3,787)
Depreciation and amortisation	(6,317)	(7)	(6,324)
Capital expenditure	4,830	185	5,015

6. Discontinued operation

As stated in the financial statements for the year 2009 the Group classified its subsidiaries, Travel Service, SmartLynx, Siglo FIU, Siglo FIJ and Siglo FIR as discontinued operations. During the first quarter 2010 the Group reclassified its ownership in the Siglo companies as part of continuing operations (see note 8). SmartLynx is still classified as discontinued and is therefore not part of the continuing operations. SmartLynx's off balance sheet obligations were ISK 4.8 billion at year end 2010, payable in 2011 and 2012. The results of the discontinued operation are specified as follows:

Results of discontinued operation	2010	2009
Revenue	8,495	56,192
Expenses	(9,767)	(59,325)
Results from operating activities	(1,272)	(3,133)
Net finance costs	(196)	(536)
Income tax	0	229
Results from operating activities, net of income tax	(1,468)	(3,440)
Loss on sale of discontinued operation	0	(687)
Guarantees of discontinued operation reversed	906	(1,806)
Impairment on shares	0	(748)
Loss for the year	(562)	(6,681)
Basic loss per share	(0.38)	(6.86)
Diluted loss per share	(0.38)	(6.86)

Cash flows used in discontinued operation	2010	2009
Net cash used in operating activities	(789)	(31)
Net cash used in investing activities	(335)	(2,510)
Net cash from financing activities	1,146	673
Net cash from (used in) discontinued operation	22	(1,868)

7. Disposals

As a part of the Group's restructuring process, as stated in note 56, the Group reduced interest bearing debt by ISK 9.4 billion by selling Bluebird Cargo ehf., and the economical benefits from IG Invest. The stake in Travel Service and the assets and liabilities of Bluebird Cargo ehf. were classified as held for sale at year end 2009. The disposal reduces total assets at year end by approx. ISK 8.5 billion and total liabilities by approx. ISK 9.6 billion. Total gain from the disposal amounts to ISK 4.2 billion and is presented seperately in the Statement of Comprehensive Income. The Group will keep the shares in Travel Service but they are still classified as asset held for sale and a sale process will be initiated in 2011. The Group will keep the first ISK 0.5 million of the potential sale price, the creditors will receive proceeds between ISK 0.5 billion ISK and ISK 1.6 billion ISK and the Group proceeds above ISK 1.6 billion.

At year end the Group sold 67% of its shares in Icelease ehf. Accordingly the assets and liabilities of Icelease is not part of the consolidated statement of financial position as at 31 December 2010.

8. Reclassification of subsidiaries

In July 2009 the Group acquired 51% in the companies Siglo FIU, Siglo FIJ and Siglo FIR. Previously the Group owned 49% of the shares and accounted for them as shares in associates. At the date of acquisition the companies were classified as discontinued operations since the ownership was considered as temporary and process of disposal had commenced. Assets and liabilities were accounted for at fair value less cost to sell at year end 2009. During the first quarter of 2010 the Group reclassified its shares in Siglo FIU, Siglo FIR and Siglo FIJ as part of the continuing operations. Following are the effects on the financial position in the year 2010.

8. contd.:

Following are the effects on the financial position in the year 2010:

Operating assets	4,053
Intangible assets	60
Trade and other receivables	10
Cash and cash equivalents	18
Loans and borrowings	(3,527)
Trade and other payables	(4)
Net assets and liabilities	610

9. Assets and liabilities classified as held for sale

On 31 December 2009 assets and liabilities classified as held for sale consisted of the assets and liabilities of SmartLynx (classified as discontinued opertation, see note 6), Bluebird Cargo (disposed in 2010, see note 7), Siglo Companies (classified as continuing operations, see note 8) and the remaining 30% share in Travel Service. At year end 2010 only the assets and liabilities of SmartLynx and the remaining share in Travel Service, were classified as held for sale.

Assets and liabilities classified as held for sale are specfied as follows:

Assets classified as held for sale	**2010**	**2009**
Operating assets	1,012	11,080
Intangible assets	20	2,793
Other non-current assets	682	2,258
Investment in other companies	500	0
Inventories	71	106
Trade and other receivables	436	1,042
Cash and cash equivalents	94	221
	2,815	17,500
Liabilities classified as held for sale		
Non-current loans and borrowings	1	4,025
Deferred income tax liability	0	298
Current loans and borrowings	517	2,722
Trade and other payables	1,700	3,184
Deferred income	147	368
	2,365	10,597

10. Operating income

Transport revenue is specified as follows:

	2010	2009
Passengers	48,634	41,581
Cargo and mail	5,310	5,558
Total transport revenue	53,944	47,139

11. Operating expenses

Salaries and other personnel expenses are specified as follows:

	2010	2009
Salaries	13,118	12,286
Equity-settled share based payment transactions	0	33
Contribution to pension funds	1,811	1,656
Other salary-related expenses	1,722	1,114
Other personnel expenses	3,764	3,563
Total salaries and other personnel expenses	20,415	18,652
Average number of full year equivalents	2,197	2,182

12. Auditors' fees

Fees to the Group's auditors is specified as follows:

	2010	2009
Audit of financial statements	35	35
Review of interim accounts	10	25
Other services	15	15
Total auditors' fees	60	75

The abovementioned figures include fees to the auditors of all companies within the Group. Fees to auditors, other than the auditors of the Parent Company amounted to ISK 10 million during the year 2010 (2009: ISK 25 million).

13. Depreciation and amortisation

The depreciation and amortisation charge in profit or loss is specified as follows:

	2010	2009
Depreciation of operating assets, see note 18	5,188	4,611
Amortisation of intangible assets, see note 22	418	494
Impairment, see note 22	718	1,019
Impairment on assets held for sale	0	528
Depreciation, amortisation and impairment losses recognised in profit or loss	6,324	6,652

14. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2010	2009
Interest income on bank deposits	102	52
Other interest income	153	111
Finance income total	255	163
Interest expense on loans and borrowings	3,239	3,669
Other interest expenses	134	484
Net foreign exchange loss	414	1,984
Loss from sale of derivatives	0	26
Finance costs total	3,787	6,163
Net finance costs	(3,532)	(6,000)

15. Income tax

Income tax recognised in profit or loss is specified as follows:

	2010	2009
Deferred tax expense		
Origination and reversal of temporary differences	1,331	(547)
Change in tax rate from 18% to 20% / 15% to 18%	127	62
Total income tax in profit or loss	1,458	(485)

In December 2010, the Icelandic Parliament approved to increase the income tax ratio from 18% to 20% as of 1 January 2011 and the change comes into effect for the tax assessment in the year 2012. The effect thereof has been recognised in the financial statements for the year 2010 and the increase in deferred income tax liability amounts to ISK 127 million.

16. Reconciliation of effective tax rate:

		2010		2009
Profit (loss) before tax and discontinued operation		6,576		(4,469)
Income tax according to current tax rate	18.0%	1,184	15.0%	(670)
Change in tax rate from 18% to 20% / 15% to 18%	1.9%	127	(1.4%)	62
Tax exempt revenues	(4.0%)	(264)	0.2%	(10)
Non-deductible expenses	9.1%	596	(4.7%)	211
Other items	(2.8%)	(185)	1.7%	(78)
Effective tax rate	22.2%	1,458	10.9%	(485)

17. Income tax recognised directly in equity:

	2010	2009
Operating assets	(249)	0
Derivatives	77	332
Other items	40	0
Total income tax recognised directly in equity	(132)	332

18. Operating assets

Operating assets are specified as follows:

Gross carrying amounts	Aircrafts and flight equipment	Buildings	Other property and equipment	Total
Balance at 1 January 2009	38,830	3,443	2,798	45,071
Additions during the year	1,941	47	238	2,226
Sales and disposals during the year	(1,555)	0	(58)	(1,613)
Exchange rate difference	1,162	74	18	1,254
Assets classified as held for sale	(8,835)	(897)	(294)	(10,026)
Balance at 31 December 2009	31,543	2,667	2,702	36,912
Additions through business combinations	6,861	0	0	6,861
Additions during the year	1,757	222	211	2,190
Sales and disposals during the year	(4,592)	(53)	(595)	(5,240)
Exchange rate difference	(2,196)	0	(15)	(2,211)
Balance at 31 December 2010	33,373	2,836	2,303	38,512
Depreciation and impairment losses				
Balance at 1 January 2009	7,043	356	874	8,273
Depreciation for the year	4,055	141	415	4,611
Depreciation for the year of discontinued operations	150	35	43	228
Sales and disposals during the year	(1,085)	0	(49)	(1,134)
Exchange rate difference	371	4	9	384
Assets classified as held for sale	(2,228)	(74)	(162)	(2,464)
Balance at 31 December 2009	8,306	462	1,130	9,898
Depreciation for the year	4,649	148	391	5,188
Depreciation for the year of discontinued operations	94	300	24	418
Sales and disposals during the year	(3,104)	(343)	(595)	(4,042)
Exchange rate difference	(533)	0	(11)	(544)
Balance at 31 December 2010	9,412	567	939	10,918

18. contd.:

Carrying amounts	Aircrafts and flight equipment	Buildings	Other property and equipment	Total
At 1 January 2009	31,787	3,087	1,924	36,798
At 31 December 2009	23,237	2,205	1,572	27,014
At 31 December 2010	23,961	2,269	1,364	27,594
Depreciation ratios	5-25%	2-6%	13-33%	

19. Mortgages and commitments

The Group's operating assets are mortgaged to secure debt. The remaining balance of the debt amounted to ISK 22,834 million at the end of the year 2010 (2009: ISK 28,379 million).

20. Insurance value of aircrafts and flight equipment

The insurance value and book value of aircrafts and related equipment of the Company at year-end 2010 are specified as follows:

	Insurance value	Carrying amount
Boeing - 8 aircrafts	35,871	19,195
Other aircrafts	6,805	1,164
Flight equipment	5,913	3,602
Total aircrafts and flight equipment	48,589	23,961

21. Insurance value of buildings and other operating assets

The principal buildings owned by the Group at 31 December 2010 are the following:

	Official assessment value	Insurance value	Carrying amount
Maintenance hangar, Keflavík Airport	1,657	3,141	773
Freight building, Keflavík Airport	388	736	334
Office building, Reykjavík Airport	711	1,177	264
Service building, Keflavík Airport	412	670	200
Hangar 4 and other buildings, Reykjavík Airport	570	1,025	285
Other buildings	370	1,008	413
Buildings total	4,108	7,757	2,269

Official valuation of the Group's leased land for buildings at 31 December 2010 amounted to ISK 806 million and is not included in the statement of financial position.

The insurance value of the Group's other operating assets and equipment amounted to 4,743 million at the end of the year 2010. The carrying amount at the same time was ISK 1,364 million.

22. Intangible assets

Intangible assets are specified as follows:

Gross carrying amounts	Goodwill	Trademarks and slots	Customer relations	Other intangibles	Total
Balance at 1 January 2009	26,001	7,048	1,832	2,278	37,159
Additions during the year	0	0	0	92	92
Sales and disposals during the year	(1,468)	(564)	(212)	(542)	(2,786)
Discontinued operation	(1,818)	(1,784)	(1,014)	(725)	(5,341)
Exchange rate difference	323	105	33	35	496
Balance at 31 December 2009	23,038	4,805	639	1,138	29,620
Additions during the year	0	0	0	214	214
Sales and disposals during the year	(4,395)	(315)	(19)	(190)	(4,919)
Exchange rate difference	(692)	(149)	(12)	(12)	(865)
Balance at 31 December 2010	17,951	4,341	608	1,150	24,050
Amortisation and impairment losses					
Balance at 1 January 2009	5,182	884	721	1,066	7,853
Amortisation for the year	4	0	158	332	494
Amortisation for the year of discontinued operation	0	0	0	37	37
Impairment loss	1,019	0	0	0	1,019
Sales and disposals during the year	(1,468)	(564)	(212)	(542)	(2,786)
Discontinued operation	(12)	0	(287)	(303)	(602)
Exchange rate difference	1	(1)	0	7	7
Balance at 31 December 2009	4,726	319	380	597	6,022
Amortisation for the year	17	0	119	282	418
Amortisation for the year of discontinued operation	0	0	0	10	10
Impairment loss	322	370	26	0	718
Sales and disposals during the year	(3,664)	(370)	(127)	(189)	(4,350)
Exchange rate difference	0	0	29	(9)	20
Balance at 31 December 2010	1,401	319	427	691	2,838
Carrying amounts					
At 1 January 2009	20,819	6,164	1,111	1,212	29,306
At 31 December 2009	18,312	4,486	259	541	23,598
At 31 December 2010	16,550	4,022	181	459	21,212

23. Impairment test

Goodwill and other intangible assets that have indefinite live are tested for impairment at each reporting date. These assets were recognised at fair value on acquistion dates. Goodwill and other intangible assets with indefinite live are specified as follows:

	2010	2009
Goodwill	16,550	18,312
Trademarks and slots	4,022	4,486
Total	20,572	22,798

For the purpose of impairment testing on goodwill, goodwill is allocated to the subsidiaries which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. The aggregate carrying amount of goodwill allocated to each segment (group of units) are as follows:

	2010	2009	2010	2009
	Goodwill		Trademarks and slots	
Route network	9,200	8,816	2,925	2,925
Tourism services	7,350	9,496	1,097	1,561
Total goodwill	16,550	18,312	4,022	4,486

The recoverable amounts of cash-generating units was based on their value in use. Value in use was determined by discounting the future cash flows generated from the continuing use of the units. 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 sources and internal sources (historical data). Value in use was based on the following key assumptions:

	Route network	Tourism Services
Long term growth rate	4.0%	4.0%
Revenue growth:		
Weighted average 2010	14.1%	5.0%
2011 - 2014	5.1%	8.0%
WACC	8,3 - 12,4%	8,9 - 10,9%
Debt leverage	52.2%	54.7%
Interest rate	3,9 - 4,5%	3,3 - 5,3%

Changes in key assumptions would have the following impact on the carrying amount of goodwill:

WACC +3%	(196)	0
EBITDA - 25%	(156)	0

Impairment loss amounting to ISK 718 million is recognised on the Tourism service segment.

24. Investments in associates

Summary of aggregate financial information for significant associates, not adjusted for the percentage ownership held by the Group:

	Ownership 2010	2009
Barkham Associates SA	-	49%
EBK ehf.	25%	25%
Gufa ehf.	27%	-
Icelease ehf., sold 67% at 31 December 2010	33%	-
Icesing ehf.	49%	49%
Tjarnir ehf.	22%	22%
Assets	388	3,006
Liabilities	150	2,306
Revenues	66	473
Expenses	61	359
Net profit	5	114
Share of (loss) profit of associates	(391)	48

25. Prepaid aircraft acquisitions

Prepaid aircraft acquisitions in the statement of financial position is for the purchase of four Boeing 787 Dreamliner aircrafts to be delivered in the year 2012, 2013 and 2014. The Company has capitalised borrowing cost related to these prepayments based on the average USD interest rate. The Company also has an option to purchase three additional 787 Boeing Dreamliner aircrafts. These contracts do not form a part of the Group at year end 2010 after the disposal of IG Invest ehf. (see note 7).

26. Long-term cost

Long-term cost corresponds to amounts paid for heavy maintenance of leased aircraft and is expensed over the life of the lease of the aircraft. Long-term cost will be specified as follows:

	2010	2009
Long-term cost	1,498	2,208
Expensed in 2011 / 2010, classified as prepayments	(580)	(861)
Total long-term cost	918	1,347

Long-term cost will be expensed as follows:

	2010	2009
Expensed in 2010	-	861
Expensed in 2011	580	608
Expensed in 2012	442	313
Expensed in 2013	271	160
Expensed in 2014	147	175
Expensed in 2015	46	79
Subsequent	12	12
Total long-term cost, including current maturities	1,498	2,208

27. Long-term receivables and deposits

Long-term receivables consist of notes, deposits for aircraft and engine lease and various other travel related security fees.

Long-term receivables and deposits are specified as follows:	2010	2009
Loans, effective interest rate 7.2% / 7.3%	70	476
Deposits	1,581	3,032
	1,651	3,508
Current maturities of long-term receivables	(227)	(59)
Long-term receivables and deposits total	1,424	3,449

Long-term receivables contractual repayments are specified as follows:

	2010	2009
Repayments in 2010	-	59
Repayments in 2011	227	505
Repayments in 2012	159	291
Repayments in 2013	475	322
Repayments in 2014	540	2,091
Repayments in 2015	8	8
Subsequent	242	232
Total loans, including current maturities	1,651	3,508

Long-term receivables and deposits denominated in currencies other than the functional currency comprise ISK 1,629 million (2009: ISK 3,277 million).

28. Inventories

Inventories are specified as follows:

	2010	2009
Spare parts	1,196	957
Other inventories	384	436
Inventories total	1,580	1,393

In 2010 the write-down of inventories to net realisable value amounted to ISK 80 million (2009: 518 million). The write-down is included in aircraft maintenance expenses and other operating expenses.

29. Trade and other receivables

Trade and other receivables are specified as follows:

	2010	2009
Trade receivables	5,525	6,613
Restricted cash	2,879	1,875
Share capital subscription	2,648	0
Current maturities of long term-receivables	227	59
Other receivables	3,295	1,178
Trade and other receivables total	14,574	9,725

At 31 December 2010 trade receivables are shown net of an allowance for doubtful debts of ISK 1,074 million (2009: ISK 448 million).

Receivables denominated in currencies other than the functional currency comprise ISK 2,911 million (2009: ISK 4,666 million) of trade receivables.

The Group's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 45.

30. Prepayments

Prepaid expenses which relates to subsequent periods amounted to ISK 950 million (2009: ISK 1,350 million) at year end. The prepayments consist mainly of insurance expenses and prepaid rental expenses.

31. Marketable securities

Marketable securities at year end consist of securities listed on the OMX Nordic and are accounted for at fair value at year end.

32. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

Bank deposits	9,645	1,877
Marketable securities	2,002	0
Cash on hand	41	32
Cash and cash equivalents total	11,688	1,909

33. Equity

(i) Share capital

The Company's share capital amounts to ISK 5,000 million as decided in its Articles of Association. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share of one ISK.

Shareholders capital was increased by ISK 4,000 million shares during 2010 as part of the Group's restructuring process. Firstly, investors paid on 2 November ISK 5.5 billion in new shares at the price of ISK 2.5 per share corresponding to 2.2 billion new shares. At the same time the Group's largest creditors converted debt in the amount of ISK 3.6 billion into shares at the price of ISK 5.0 per share which corresponds to 720 million new shares. Secondly, on 22 December, the Group sold new shares to current shareholders, employees and new investors for 2.6 billion at the price of ISK 2.5 which corresponds to 1.1 billion new shares. This was paid to the Group on 6 January 2011 and is therefore included in Trade and other receivables at year end 2010.

The Company held own shares in the amount of ISK 25 million at the year end 2010 (2009: ISK 25 million).

(ii) Share capital and share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve which can not be paid out as dividend to shareholders.

Expenses directly attributable to the share capital increase in 2010 amounted to ISK 146 million and are deducted from share premium.

(iii) Other reserves

The share option reserve includes the accrued part of the fair value of share options. This reserve was reversed during the year as all share options forfeited in the beginning of 2010.

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 foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge net investment in a foreign operation.

33. contd.:

Other reserves are specified as follows:

	Share option reserve	Hedging reserve	Translation reserve	Total reserves
Balance 1 January 2009	153	(4,207)	5,910	1,856
Foreign currency translation differences for foreign operations			686	686
Net profit on hedge of net investment in foreign operation, net of tax			(16)	(16)
Net investment hedge transferred to profit or loss			825	825
Effective portion of changes in far value of cash flow hedges, net of tax		3,905		3,905
Share based payment	(53)			(53)
Sale of non-controlling interest			(304)	(304)
Balance at 31 December 2009	100	(302)	7,101	6,899
Balance at 1 January 2010	100	(302)	7,101	6,899
Foreign currency translation differences for foreign operations			(615)	(615)
Foreign currency translation differences reclassified to profit or loss			(2,120)	(2,120)
Net profit on hedge of net investment in foreign operation, net of tax			49	49
Effective portion of changes in far value of cash flow hedges, net of tax		274		274
Share option reserve reversed	(100)			(100)
Balance at 31 December 2010	0	(28)	4,415	4,387

(iv) **Dividends**

No dividend was paid during the years 2010 and 2009 and the Board of Directors proposes that no dividends will be paid to shareholders in the year 2011.

34. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Parent by the weighted average outstanding number of shares during the period and shows the earnings per each share. The calculation of diluted earnings per share takes into consideration the issued convertible notes when calculating the share capital.

	2010	2009
Basic earnings per share:		
Profit (loss) for the period attributable to equity holders of the Parent	4,564	(10,319)
Average share capital	1,485	975
Profit (loss) per share of ISK 1	3.07	(10.94)

Diluted earnings per share is equal to earnings per share as the conversion of convertible notes is not dilutive.

Profit (loss) attributable to ordinary equity holders of the parent company:

	2010	2009
Profit (loss) for the year attributable to equity holders of the Parent	4,564	(10,319)
Discontinued operations	562	6,681
Total	5,126	(3,638)

34. contd.:

Weighted average number of ordinary shares

in million shares	**2010**	**2009**
Issued ordinary shares at beginning of year	975	975
Effect of new shares sold in November 2010	485	0
Effect of new shares sold in December 2010	26	0
Weighted average number of ordinary shares at 31 December	1,486	975

Earnings per share:

Earnings per share (ISK)	3.07	(10.94)
Diluted earnings per share (ISK)	3.07	(10.94)

Earnings per share from continuing operations:

Basic earnings per share (ISK)	3.45	(4.09)
Diluted earnings per share (ISK)	3.45	(4.09)

35. Loans and borrowings

This note provides information about the contractual terms of the Group´s interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group´s exposure to interest rate, foreign currency and liquidity risk, see note 45.

Non-current loans and borrowings are specified as follows:

Secured bank loans	22,834	11,211
Unsecured loans	1,770	2,727
Convertible notes	0	1,947
	24,604	15,885
Current maturities	(3,248)	(2,209)
Total non-current loans and borrowings	21,356	13,676

Current loans and borrowings are specified as follows:

Current maturities of non-current liabilities	3,248	2,209
Short-term notes	0	1,160
Short-term loans from credit institutions	0	19,345
Total current loans and borrowings	3,248	22,714
Total loans and borrowings	24,604	36,390

36. Secured bank loans are specified as follows:

	Currency	**Nominal interest rates year end 2010**	**Year of maturity**	**Total remaining balance 2010**	**Total remaining balance 2009**
Secured bank loan	USD	4.3%	2013-2018	15,638	10,936
Secured bank loan	EUR	5.4%	2013-2017	3,699	0
Secured bank loan	ISK	8.0%	2013-2017	3,227	0
Secured bank loan, indexed	ISK	7.1%	2012-2028	270	275
Unsecured bond issue, indexed	ISK	5.7%	2012-2023	1,770	1,731
Unsecured bank loan	ISK			0	2,697
Short-term notes	ISK			0	1,160
Short-term notes from credit inst.	ISK/EUR/USD			0	17,644
Convertible notes	ISK			0	1,947
Total interest-bearing liabilities				24,604	36,390

37. Repayments of loans and borrowings are specified as follows:

	2010	2009
Repayments in 2010	-	22,714
Repayments in 2011	3,248	6,310
Repayments in 2012	3,099	1,741
Repayments in 2013	7,820	1,886
Repayments in 2014	4,242	3,530
Repayments in 2015	1,033	15
Subsequent repayments	5,162	194
Total loans and borrowings	24,604	36,390

38. Convertible notes

Convertible notes are specified as follows:

	2010	2009
Proceeds from issue of convertible notes - nominal amount	2,000	2,000
Transaction cost	(39)	(39)
Net proceeds	1,961	1,961
Amount classified as equity	(110)	(110)
Expensed transaction cost	149	96
Refinancing settlement	(2,000)	0
Carrying amount of liability	0	1,947

Convertible notes were issued in October 2006. As part of the refinancing structure, in note 56, the convertible note was refinanced in full.

39. Prepayments

Prepayments at year end 2009 consisted of deposits from 3rd party in relation to future aircraft transactions.

40. Long-term payables

Long-term payables corresponds to estimated cost of overhauling engines of leased aircraft and security deposits from charter contracts. Long term obligation at year end 2010 amounts to ISK 4,745 million (2009: ISK 3,688 million) and short term obligation, which is included in other payables amounts to 1,249 million (2009: ISK 1,589 million).

41. Deferred income tax asset (liability)

The deferred income tax asset (liability) is specified as follows:

	2010	2009
Deferred income tax liability 1.1.	140	(23)
Exchange rate difference	(48)	(143)
Income tax recognised in profit or loss	(1,458)	485
Income tax recognised in equity	132	(332)
Assets held for sale	(33)	153
Deferred income tax (liability) asset 31.12.	(1,267)	140

Deferred tax assets and liabilities is attributable to the following:

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Operating assets	0	0	(2,091)	(1,801)	(2,091)	(1,801)
Intangible assets	0	0	(11)	(195)	(11)	(195)
Derivatives	0	67	(7)	0	(7)	67
Deferred gains	0	0	(555)	0	(555)	0
Trade receivables	173	6	0	0	173	6
	173	73	(2,664)	(1,996)	(2,491)	(1,923)
Tax loss carry-forwards	1,314	2,096	0	0	1,314	2,096
Other items	0	0	(90)	(33)	(90)	(33)
Deferred income tax	1,487	2,169	(2,754)	(2,029)	(1,267)	140

41. contd.:

	1 January 2010	Recognised in income statement	Exchange rate difference	Transferred to assets held for sale	Recognised in equity	31 December 2010
Operating assets	(1,801)	(809)	0	270	249	(2,091)
Intangible assets	(195)	184	0	0	0	(11)
Derivatives	67	0	3	0	(77)	(7)
Deferred gains	0	(555)	0	0	0	(555)
Trade receivables	6	168	0	(1)	0	173
Tax loss carry-forwards	2,096	(503)	(46)	(233)	0	1,314
Other items	(33)	57	(5)	(69)	(40)	(90)
	140	(1,458)	(48)	(33)	132	(1,267)

	1 January 2009	Recognised in income statement	Exchange rate difference	Additions through business combination	Recognised in equity	31 December 2009
Operating assets	(1,788)	(365)	2	350	0	(1,801)
Intangible assets	(38)	(157)	0	0	0	(195)
Derivatives	420	(13)	(8)	0	(332)	67
Trade receivables	17	17	0	(28)	0	6
Tax loss carry-forwards	1,200	1,014	(106)	(12)	0	2,096
Other items	166	(11)	(31)	(157)	0	(33)
	(23)	485	(143)	153	(332)	140

42. Share-based payments

The number and weighted average exercise price of share options is as follows in thousands:

	Weighted average exercise price 2010	Number of options 2010	Weighted average exercise price 2009	Number of options 2009
Outstanding at 1 January	27.5	14,126	27.5	28,253
Forfeited during the year	27.5	(14,126)	27.5	(14,127)
Outstanding at 31 December	27.5	0	27.5	14,126
Exercisable at 31 December		0		0

There were no outstanding options at year end 2010. All outstanding options at year end 2009 were forfeited in January 2010. There were no recognised expenses for the year arising from share-based payment transactions (2009: ISK 33 million).

43. Trade and other payables

Trade and other payables are specified as follows:

	2010	2009
Trade payables	3,298	3,464
Derivatives used for hedging	53	369
Other payables	10,697	10,559
Total trade and other payables	14,048	14,392

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 45.

44. 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.

45. Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, 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 Board has established the Risk Management Commitee, which 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. 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.

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.

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 of liquid assets and agreements with financial institutions related to financial operations, e.g. 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 and satisfactory credit ratings.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. 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.

45. contd.:

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. However at year end 2010 the Group is still guaranteeing from divested companies (see note 7), the PDP payments of 4, 787 Boeing Dreamliner orders but the economical proceeds from these orders have been sold to the creditors in relation to the financial restructuring explained in note 56.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Notes	2010	2009
Long-term receivables and deposits	27	1,424	3,449
Trade and other receivables	29	14,574	9,725
Marketable securities	30	1,306	0
Cash and cash equivalents	31	11,688	1,909
		28,992	15,083

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not past due	4,089	(45)	5,302	(27)
Past due 0-30 days	1,199	(293)	380	(9)
Past due 31-120 days	837	(394)	773	(71)
Past due 121-365 days	184	(107)	288	(162)
More than one year	290	(235)	318	(179)
Total	6,599	(1,074)	7,061	(448)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2010	2009
Balance at 1 January	448	825
Discontinued operations	0	(313)
Impairment loss recognized (reversed)	626	(64)
Balance at 31 December	1,074	448

Based on historical default rates, the Group believes that no 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 unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

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.

45. contd.:

The Group policy is to divide liquid assets into three classes depending on duration and match them against the Group's liquidity preferences laid out by the management on annual basis. Classes one and two include the estimated minimum of accessible funds for operational liquidity, but differ in terms of asset duration. Class three includes assets of longer duration for strategic liquidity, such as medium term investments. The amounts in each class of assets are targeted once a year with reference to a number of economic indicators, most importantly the annual level of fixed costs, and turnover.

The following are the contractual maturities of financial liabilities, including estimated interest payments and payments of off-balance sheet items.

2010	**Carrying amount**	**Contractual cash flows**	**Within 12 months**	**1-2 years**	**2-5 years**	**After 5 years**
Financial liabilities						
Unsecured bank loans	1,770	(2,600)	(247)	(205)	(586)	(1,562)
Secured bank loans	22,834	(27,549)	(4,275)	(4,053)	(14,691)	(4,530)
Payables & prepayments	18,793	(18,793)	(14,048)	(2,010)	(2,109)	(626)
	43,397	(48,942)	(18,570)	(6,268)	(17,386)	(6,718)
Off balance sheet liabilities						
Operating lease payments ...	0	(30,005)	(7,657)	(6,556)	(7,343)	(8,449)
Exposure to liquidity risk	43,397	(78,947)	(26,227)	(12,824)	(24,729)	(15,167)
2009						
Financial liabilities						
Unsecured bond issue	22,694	(22,694)	(22,694)	0	0	0
Secured bank loans	11,211	(13,266)	(2,884)	(2,161)	(8,004)	(217)
Convertible notes	1,947	(2,344)	(229)	(2,115)	0	0
Payables & prepayments	20,334	(20,334)	(14,392)	(2,252)	(3,690)	0
	56,186	(58,638)	(40,199)	(6,528)	(11,694)	(217)
Off balance sheet liabilities						
Operating lease payments ...	0	(38,137)	(12,502)	(10,939)	(13,489)	(1,207)
Pre delivery payments	0	(18,531)	(839)	(1,966)	(15,726)	0
	0	(56,668)	(13,341)	(12,905)	(29,215)	(1,207)
Exposure to liquidity risk	56,186	(115,306)	(53,540)	(19,433)	(40,909)	(1,424)

Unused loan commitments at year end 2010 amounted to ISK 500 million (2009: ISK 155 million).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and fuel price will affect the Group's operations. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group uses derivatives 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.

45. contd.:

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities.

The Group seeks to reduce its foreign exchange exposure arising from transactions in various currencies through a policy of matching receipts and payments in each individual currency. Then internal trades across the range of subsidiaries are arranged by the Group as possible. Nevertheless, the USD cash inflow falls short of USD outflow due to fuel costs, lease and capital related payments which are to a large extent denominated in USD. This shortage is financed by a surplus of European currencies, most importantly EUR and Scandinavian currencies. The Group follows a hedging policy of 40-80% of net exposure with a 9 month horizon and uses a portfolio of instruments, mainly forwards and options. Market failures as well as added opportunity costs has jeopardized hedging activities and currently no FX hedge contracts are in place.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts in major currencies:

2010	**USD**	**EUR**	**DKK**	**SEK**	**NOK**
Net bal. sheet exposure	(283)	(3,607)	392	488	767
Forecast revenue	29,276	13,060	3,011	3,536	3,182
Forecast purchases	(39,635)	(8,775)	(1,270)	(341)	(423)
Forward FX contracts	520	(520)	0	0	0
Net currency exposure	(10,122)	158	2,133	3,683	3,526
2009					
Net bal. sheet exposure	1,786	(2,199)	279	337	331
Forecast revenue	27,302	15,356	3,618	3,220	2,985
Forecast purchases	(40,850)	(5,675)	(1,644)	(340)	(455)
Net currency exposure	(11,762)	7,482	2,254	3,218	2,861

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
	2010	**2009**	**2010**	**2009**
USD	122.53	123.93	115.34	125.21
EUR	162.62	172.99	154.36	180.41
DKK	21.84	23.26	20.71	24.25
SEK	17.07	16.35	17.2	17.63
NOK	20.24	19.86	19.77	21.77

45. contd.:

Sensitivity analysis

A 10% strengthening of the ISK 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. This analysis is performed on the same basis for 2009.

	Equity	Profit or loss
2010		
USD	830	1,071
EUR	(13)	(37)
DKK	(175)	(175)
SEK	(302)	(302)
NOK	(289)	(289)
2009		
USD	964	1,018
EUR	(614)	(642)
DKK	(185)	(185)
SEK	(263)	(263)
NOK	(235)	(235)

A 10% weakening of the ISK 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 largest share of outstanding long term loans, carrying 3-6 months floating interest rates are directly related to aircraft financing and denominated in USD. That is a consequence of the fact that the most liquid market for commercial aircraft denominates prices in USD. The Group follows a policy of hedging 40-80% of interest rate exposure. Swap contracts are mainly used to exchange floating rates for fixed up to 5 years ahead, which currently amounts to USD 10 million and carries on average 4.65% interest rates. Due to financial market circumstances, extensions of current swap contracts have not been made available and they will expire in 2011.

At the reporting date the interest rate profile of the Group´s interest bearing financial instruments was:

	Carrying amount	
	2010	**2009**
Fixed rate instruments		
Financial assets	1,424	3,449
Financial liabilities	(4,381)	(331)
	(2,957)	3,118
Variable rate instruments		
Financial liabilities	(20,223)	(36,059)

45. contd.:

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

A change of 100 basis points in interest rates would have immaterial effects on the fair value.

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 shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	Equity	
	100 bp increase	**100 bp decrease**
2010		
Variable rate instruments	11	(5)
Total	11	(5)
2009		
Variable rate instruments	49	(50)
Total	49	(50)

Other market risk

Fuel price risk

The Group maintains a policy of hedging fuel price exposure by a ratio reflecting forward sales of trickets and up to 60% of the fuel exposure by using swaps and options. Financial market conditions and the cost of hedging the fuel price has been such that the Group deviated from its policy in 2010, except for a minimum cover for the summer season. The company resumed systematic hedgeing activities to comply with the policy by the end of the year.

Sensitivity analysis

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in fuel prices, with all other variables held constant, on profit before tax and equtiy:

	2010	2009	2010	2009
	Effect on equity		Effect on profit before tax	
Increase in fuel prices by 10%	30	0	30	0
Decrease in fuel prices by 10%	(30)	0	(30)	0

Capital management

The Board's policy is to maintain a strong capital base so as to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

46. 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:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables	15,998	15,998	13,174	13,174
Marketable securities	1,306	1,306	0	0
Cash and cash equivalents	11,688	11,688	1,909	1,909
Unsecured bond issue	(1,770)	(1,770)	(23,232)	(23,232)
Secured bond loans	(22,834)	(22,834)	(11,211)	(11,211)
Convertible notes	0	0	(1,947)	(1,947)
Payables and prepayments	(18,793)	(18,793)	(20,334)	(20,334)
Total	(14,405)	(14,405)	(41,641)	(41,641)

The basis for determining fair values is disclosed in note 4.

47. Off-balance sheet items

As a lessee the Group has in place operating leases for 18 aircrafts at the end of December 2010. The leases are for thirteen Boeing 757 aircrafts and five Boeing 767 aircrafts. The Group also has in place operating leases for storage facilities, accommodations, equipment and fixtures for its operations, the longest until the year 2032. At the end of December 2010 the leases are payable as follows:

	Real estate	Aircrafts	Other	Total 2010	Total 2009
In the year 2010	-	-	-	-	12,502
In the year 2011	902	6,506	249	7,657	10,939
In the year 2012	889	5,651	16	6,556	8,967
In the year 2013	828	2,924	12	3,764	3,779
In the year 2014	787	1,121	0	1,908	741
In the year 2015	736	934	0	1,670	715
Subsequent	7,808	642	0	8,450	494
Total	11,950	17,778	277	30,005	38,137

48. As a lessor the Company leases aircrafts on wet, dry and other various leases, both on short and long term leases. Lease income for the year 2010 amounted to ISK 19,972 million (2009; ISK 19,425 million). Contracted leases at year end were as follows:

	2010	2009
In the year 2010	-	12,921
In the year 2011	12,908	10,009
In the year 2012	10,911	5,649
In the year 2013	5,683	1,392
In the year 2014	3,064	172
In the year 2015	2,689	0
Subsequent	961	0
Total	36,216	30,143

49. Capital commitments

IG Invest, former subsidiary of the Company, has agreements with Boeing regarding the purchase of four Boeing 787 Dreamliner aircrafts to be delivered in the year 2012, 2013 and in 2014. IG Invest also has an option to purchase three additional 787 Boeing Dreamliner aircrafts. After the disposal of IG Invest, Icelandair Group is still the guarantor for these capital commitments but as part of the restructuring the Group sold the economical proceeds of those orders to its creditors.

50. Litigations and claims

During the first half of 2007 the Icelandic Competition Authorities fined the subsidiary Icelandair ehf. due to an alleged breach of the Icelandic Competition law. The penalty amounts to ISK 130 million after it was lowered by 30% after a decision by the Competition Appeals Committee. Icelandair ehf. took this case to the District Court of Reykjavik which ruled in February 2010 to dismiss the penalty. The court ruling was appealed to the Supreme Court of Iceland which ruled in January 2011 that due to formalities the District Court should reopen the case. The Group considers that this case will end up in favour of the Group but to be precautious ISK 65 million has been expensed in the income statement.

51. 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 paid for their work for Group companies during the year 2010, share option agreements and shares in the Company are specified as follows:

	Salaries and benefits		Shares held at year-end 2010	Share held by related parties
Board of Directors:				
Sigurður Helgason, chairman of the board	3.8	*	0.5	
Finnbogi Jónsson	0.6	**		
Herdís Dröfn Fjeldsted	0.3	**		
Katrín Olga Jóhannesdóttir	1.9		0.2	
Úlfar Steindórsson	0.6			
Magnús Magnússon, alternative board member	0.6	*		
Vilborg Lofts, alternative board member	0.1			
Auður Finnbogadóttir, former board member	0.4			
Finnur Reyr Stefánsson, former board member	1.4			33.1
Jón Ármann Guðjónsson, former board member	1.4		0.2	
Pétur J. Eiríksson, former board member	1.4			
Kristín Einarsdóttir, former alt. board member	0.5			
Tómas Kristjánsson, former alt. board member	1.0			12.1
Key employees:				
Björgólfur Jóhannsson CEO of Icelandair Group hf.	39.1		1.0	
Sigþór Einarsson, Deputy CEO of Icelandair Group hf.	22.8		1.1	
Bogi Nils Bogason, CFO of Icelandair Group hf.	21.3		1.0	
Birkir Hólm Guðnason, CEO of Icelandair ehf.	22.9			
Guðni Hreinsson, MD of Loftleidir - Icelandic ehf.	15.9			
Gunnar Már Sigurfinnsson, MD of Icelandair Cargo ehf	19.4		0.1	
Eight MD of group companies	129.4		6.0	

Included in the above mentioned list of shares held by management and directors are shares held by companies controlled by them.

*Two board members have dismissed their rights to salaries so instead the board agreed to pay the same amount to Icelandair's Special Children's Travel Fund.

**The salaries of two board members are paid to Framtakssjódur Íslands slhf.

51. contd.:

Transaction with associates

During the year 2010 the Group did not purchase any services from associates (2009: ISK 358 million), but the Group's revenues were ISK 6 million from associates (2009: ISK 5 million). The Group has not granted any loans to its associates. Transactions with associates are priced on an arm's length basis.

Transaction with shareholders

Shareholders with significant influence at year end 2010 are Framtakssjóður Íslands slhf. and Íslandsbanki hf. Transactions with these shareholders mainly consist of transaction in relation to the Group's financial restructuring, disclosed in note 56.

At year end 2010 borrowings from Íslandsbanki hf. amounted to ISK 5.4 billion

52. Group entities

The Company holds eleven subsidiaries at year end 2010 which are all included in the consolidated financial statements. They are:

	Ownership interest	
	2010	**2009**
Route network:		
Bluebird Cargo ehf.	-	100%
Icelandair ehf.	100%	100%
Icelandair Cargo ehf.	100%	100%
Icelandair Ground Services ehf. (IGS)	100%	100%
Tourism services:		
Air Iceland ehf.	100%	100%
Iceland Travel ehf.	100%	100%
Icelandair Hotels ehf.	100%	100%
Icelandair Shared Services ehf.	100%	100%
Icelease ehf.	-	100%
IG Invest ehf.	50%	100%
Loftleiðir - Icelandic ehf.	100%	100%
Other operation:		
IceCap Ltd., Guernsey	100%	100%
Discontinued operation:		
Smart Lynx, Latvia	100%	100%

The subsidiaries own 25 subsidiaries that are also included in the consolidated financial statements.

At year end the shares in the subsidiaries in Route Network and Tourism services are pledged as mortage against the Group's borrowings.

53. Statement of cash flows

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

	2010	**2009**
Expensed long term cost	4,618	3,972
Exchange rate difference and indexation of liabilities and assets	193	2,146
Gain on disposals in relation to financial restructuring	(4,246)	0
Loss from assets held for sale	(906)	3,241
Loss (gain) on the sale of operating assets	162	(30)
Share of (loss) profit of associates	391	(48)
Income tax	1,458	(163)
Other items	(89)	3
Total other operating items in the statement of cash flows	1,581	9,121

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

	2010	2009
Inventories, (increase) decrease	(187)	385
Trade and other receivables, decrease	654	437
Trade and other payables, increase	(656)	(61)
Deferred income, increase	1,629	2,647
Net change in operating assets and liabilities in the statement of cash flows	1,440	3,408

55. Additional cash flow information:

Interests paid	1,703	3,083
Interests received	219	113

56. Restructuring

The resturcturing of the Group's Financial Position was finalized on 21 October 2010. The financial restructuring is based on three components:

• Firstly, investors have invested ISK 8.0 billion in new shares at the price of ISK 2.5 per share corresponding to a subscription of 3.2 billion new shares in Icelandair Group.

• Secondly, the Group's largest creditors converted debt in the amount of ISK 3.6 billion into new shares at the price of ISK 5.0 per shares which corresponds to 720 million new shares.

• Thirdly, the financial restructuring of the Group reduces interest bearing debt by ISK 9.4 billion through the transfer and sale of certain assets which formed a part of the Group's core business. The sales and purchase contracts relating to these assets contained standard reservations regarding the approval of relevant authorities. All conditions were met on 10 Febuary 2011 and the effects of the restructuring is included in the Financial Statements. Capital gain from the sale amounts to ISK 4.3 billion and equity increased by ISK 1.3 billion.

57. Ratios

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

	2010	2009
Working capital ratio	1.16	0.58
Equity ratio	0.34	0.16
Intrinsic value of share capital	5.71	14.98