

**Icelandair Group hf.**  
Condensed Consolidated  
Interim Financial Statements  
1 January - 30 June 2016

USD

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

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

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The condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 30 June 2016 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements (IAS 34). The interim financial statements comprise the consolidated interim financial statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The condensed consolidated Interim financial statements are stated in thousands of USD.

According to the consolidated statement of comprehensive income, profit for the period from 1 January to 30 June 2016 amounted to USD 9.2 million. Total comprehensive profit for the period was USD 41.0 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 470.6 million, including share capital in the amount of USD 40.6 million. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity.

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

The condensed consolidated interim financial statements for the six months ended 30 June 2016 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. The condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent auditors.

According to our best knowledge it is our opinion that the condensed consolidated interim financial statements give a true and fair view of the financial performance of the Group for the six month period ended 30 June 2016, its assets, liabilities and consolidated financial position as at 30 June 2016 and its consolidated cash flows for the period then ended.

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

The Board of Directors and the CEO have today discussed the condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 30 June 2016 and confirm them by means of their signatures.

Reykjavík, 27 July 2016.

Board of Directors:

Sigurður Helgason, Chairman of the Board

Úlfar Steindórsson

Ásthildur M. Otharsdóttir

Katrín Olga Jóhannesdóttir

Magnús Magnússon

CEO:

Björgólfur Jóhannsson

## Consolidated Statement of Comprehensive Income for the period from 1 January to June 30 2016

	Notes	2016 1.4.-30.6.	2015 1.4.-30.6.	2016 1.1.-30.6.	2015 1.1.-30.6.
<b>Operating income</b>					
Transport revenue .....	6	246.987	224.415	388.845	352.754
Aircraft and aircrew lease .....		20.713	18.266	47.050	38.445
Other operating revenue .....	6	63.655	51.531	107.297	89.088
		<u>331.355</u>	<u>294.212</u>	<u>543.192</u>	<u>480.287</u>
<b>Operating expenses</b>					
Salaries and other personnel expenses .....		91.963	71.359	163.439	128.446
Aviation expenses .....		116.087	115.636	196.236	197.539
Other operating expenses .....		70.900	56.952	130.015	106.305
	7	<u>278.950</u>	<u>243.947</u>	<u>489.690</u>	<u>432.290</u>
<b>Operating profit before depreciation and amortisation (EBITDA) ..</b>		52.405	50.265	53.502	47.997
Depreciation and amortisation .....		<u>( 23.198)</u>	<u>( 21.872)</u>	<u>( 44.966)</u>	<u>( 38.883)</u>
<b>Operating profit before net finance costs (EBIT) .....</b>		29.207	28.393	8.536	9.114
Finance income .....		4.707	1.270	5.167	3.697
Finance costs .....		<u>( 1.092)</u>	<u>( 1.740)</u>	<u>( 2.220)</u>	<u>( 3.282)</u>
<b>Net finance income (costs) .....</b>	8	<u>3.615</u>	<u>( 470)</u>	<u>2.947</u>	<u>415</u>
Share of (loss) profit of associates, net of tax .....		<u>( 58)</u>	<u>0</u>	<u>( 3)</u>	<u>90</u>
<b>Profit before tax .....</b>		32.764	27.923	11.480	9.619
Income tax .....		<u>( 6.595)</u>	<u>( 5.558)</u>	<u>( 2.307)</u>	<u>( 1.806)</u>
<b>Profit for the period .....</b>		<u>26.169</u>	<u>22.365</u>	<u>9.173</u>	<u>7.813</u>
<b>Other comprehensive income:</b>					
Foreign currency translation differences of foreign operations .....		<u>( 258)</u>	<u>1.615</u>	<u>3.522</u>	<u>( 2.362)</u>
Effective portion of changes in fair value of cash flow hedge, net of tax .....		<u>22.905</u>	<u>13.591</u>	<u>28.300</u>	<u>20.624</u>
<b>Other comprehensive profit for the period .....</b>		<u>22.647</u>	<u>15.206</u>	<u>31.822</u>	<u>18.262</u>
<b>Total comprehensive profit for the period .....</b>		<u>48.816</u>	<u>37.571</u>	<u>40.995</u>	<u>26.075</u>
<b>Profit attributable to:</b>					
Owners of the Company .....		26.077	22.352	9.095	7.850
Non-controlling interest .....		<u>92</u>	<u>13</u>	<u>78</u>	<u>( 37)</u>
<b>Profit for the period .....</b>		<u>26.169</u>	<u>22.365</u>	<u>9.173</u>	<u>7.813</u>
<b>Total Comprehensive profit attributable to:</b>					
Owners of the Company .....		48.737	37.553	40.915	26.121
Non-controlling interest .....		<u>79</u>	<u>18</u>	<u>80</u>	<u>( 46)</u>
<b>Total comprehensive profit for the period .....</b>		<u>48.816</u>	<u>37.571</u>	<u>40.995</u>	<u>26.075</u>
<b>Profit per share:</b>					
Basic profit per share in US cent per share .....		0,52	0,45	0,18	0,16
Diluted profit per share in US cent per share .....		0,52	0,45	0,18	0,16

The notes on pages 8 to 14 are an integral part of these interim consolidated financial statements.

## Consolidated Statement of Financial Position as at 30 June 2016

	Notes	30.6.2016	31.12.2015
<b>Assets</b>			
Operating assets .....	9	521.497	419.071
Intangible assets and goodwill .....		173.373	172.694
Investments in associates .....		20.173	18.223
Deferred cost .....		81	118
Receivables and deposits .....		40.315	27.474
Non-current assets		755.439	637.580
Inventories .....		20.644	19.205
Trade and other receivables .....		149.882	101.075
Assets held for sale .....	5	4.148	0
Short term investments .....		13.196	19.533
Cash and cash equivalents .....		274.416	194.586
Current assets		462.286	334.399
<b>Total assets</b>		1.217.725	971.979
<b>Equity</b>			
Share capital .....		40.576	40.576
Share premium .....		154.705	154.705
Reserves .....	10	33.220	1.400
Retained earnings .....		241.873	259.746
Equity attributable to equity holders of the Company		470.374	456.427
Non-controlling interest .....		184	104
Total equity		470.558	456.531
<b>Liabilities</b>			
Loans and borrowings .....	11	51.008	55.387
Payables .....		8.138	8.644
Deferred tax liabilities .....		46.329	35.485
Non-current liabilities		105.475	99.516
Loans and borrowings .....	11	10.473	10.143
Trade and other payables .....		280.771	219.680
Deferred income .....		350.448	186.109
Current liabilities		641.692	415.932
Total liabilities		747.167	515.448
<b>Total equity and liabilities</b>		1.217.725	971.979

The notes on pages 8 to 14 are an integral part of these interim consolidated financial statements.

## Consolidated Statement of Changes in Equity for the period from 1 January to 30 June 2016

	Attributable to equity holders of the Company						Non-con- trolling interest	Total equity
	Share capital	Share premium	Reserves	Retained earnings	Total	Total		
<b>1 January to 30 June 2015</b>								
Equity 1.1.2015 .....	40.576	154.705	3.195	166.371	364.847	208	365.055	
Total comprehensive profit .....			18.271	7.850	26.121	( 46 )	26.075	
Dividend (0.36 US cent per share) ....				( 17.943 )	( 17.943 )		( 17.943 )	
Equity 30 June 2015 .....	40.576	154.705	21.466	156.278	373.025	162	373.187	
 <b>1 January to 30 June 2016</b>								
Equity 1.1.2016 .....	40.576	154.705	1.400	259.746	456.427	104	456.531	
Total comprehensive profit .....			31.820	9.095	40.915	80	40.995	
Dividend (0.54 US cent per share) ....				( 26.968 )	( 26.968 )		( 26.968 )	
Equity 30 June 2016 .....	40.576	154.705	33.220	241.873	470.374	184	470.558	

Information on changes in reserves are provided in note 10.

The notes on pages 8 to 14 are an integral part of these interim consolidated financial statements.

## Consolidated Statement of Cash Flows for the six months ended 30 June 2016

	Note:	2016 1.4.-30.6.	2015 1.4.-30.6.	2016 1.1.-30.6	2015 1.1.-30.6
<b>Cash flows from operating activities</b>					
Profit for the period .....		26.169	22.365	9.173	7.813
Adjustments for:					
Depreciation and amortisation .....		23.198	21.872	44.966	38.883
Other operating items .....	19	7.943	5.374	6.194	4.079
Working capital from operations		<u>57.310</u>	<u>49.611</u>	<u>60.333</u>	<u>50.775</u>
Net change in operating assets and liabilities .....	20	62.326	37.113	208.095	153.636
Net cash from operating activities		<u>119.636</u>	<u>86.724</u>	<u>268.428</u>	<u>204.411</u>
<b>Cash flows used in investing activities:</b>					
Acquisition of operating assets .....		( 92.116 )	( 29.988 )	( 148.102 )	( 55.867 )
Proceeds from the sale of operating assets .....		478	182	478	305
Acquisition of intangible assets .....		( 193 )	( 482 )	( 555 )	( 739 )
Capitalised deferred cost .....		( 8.016 )	( 6.256 )	( 8.386 )	( 6.467 )
Non-current receivables, change .....		( 4.953 )	( 1.002 )	( 7.870 )	( 3.984 )
Marketable securities, change .....		46.523	2.987	6.357	( 5.418 )
Net cash used in investing activities		<u>( 58.277 )</u>	<u>( 34.559 )</u>	<u>( 158.078 )</u>	<u>( 72.170 )</u>
<b>Cash flows used in financing activities:</b>					
Dividend paid .....		( 26.968 )	( 17.943 )	( 26.968 )	( 17.943 )
Proceeds from non-current borrowing .....		700	0	700	23.660
Repayment of non-current borrowings .....		( 2.232 )	( 2.773 )	( 5.527 )	( 6.553 )
Net cash used in financing activities		<u>( 28.500 )</u>	<u>( 20.716 )</u>	<u>( 31.795 )</u>	<u>( 836 )</u>
<b>Increase in cash and cash equivalents .....</b>		32.859	31.449	78.555	131.405
<b>Effect of exchange rate fluctuations on cash held .....</b>		( 259 )	799	1.275	( 1.264 )
<b>Cash and cash equivalents at beginning of the period .....</b>		<u>241.816</u>	<u>282.655</u>	<u>194.586</u>	<u>184.762</u>
<b>Cash and cash equivalents at 30 June .....</b>		<u><u>274.416</u></u>	<u><u>314.903</u></u>	<u><u>274.416</u></u>	<u><u>314.903</u></u>

Information on interest paid and received are provided in note 21.

The notes on pages 8 to 14 are an integral part of these interim consolidated financial statements.

# Notes

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## 1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates. The Group primarily operates in the airline transportation and tourism industry. The Company is listed on the Nasdaq OMX Iceland.

The Group's consolidated financial statements as at and for the year ended 31 December 2015 are available upon request from the Company's registered office at Reykjavíkurlugvöllur in Reykjavík, Iceland or at its website address, [www.icelandairgroup.is](http://www.icelandairgroup.is) and at The Icelandic Stock Exchange website, [www.nasdaqomx.com](http://www.nasdaqomx.com).

## 2. Basis of accounting

These interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2015.

These interim financial statements were approved for issue by the Board of Directors on 27 July 2016.

## 3. Use of judgements and estimates

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015.

### a. Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. The management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Group Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

## Notes, contd.:

### 4. Operating segment

Segment information is presented in the interim 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.

#### *Route network*

The primary business strategy of the Route Network is to operate flights based on the Hub and Spoke concept between Europe and North America via Iceland, leveraging Iceland's geographical position. Icelandair's Hub and Spoke System is able to maximize flights to and from North America arriving in Iceland with easy connections to Scandinavia, the UK and Continental Europe. This successful strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed Icelandair to constantly grow and expand its route network over the last years.

Icelandair Cargo sells and markets the cargo space capacity of Icelandair's aircraft in the route network and in addition operates two dedicated freighters servicing the imports and exports market to and from Iceland. Loftleidir Icelandic leases and services aircraft to international clients. The aircraft is usually operated under the Icelandair Air Operator Certificate (AOC) and Icelandair Technical Services provides maintenance service for Loftleidir's clients. Air Iceland is the regional airline that operates scheduled flights within Iceland and to Greenland.

#### *Tourism services*

The focus of the tourism services business segment is on catering to the growing demand for universal tourist services in Iceland. The segment comprises a wide array of the tourism value chain offering a wide collection of hotel brands and a full service tour operator. Icelandair Hotels is the Company's hotel chain offering four hotel brands through different geographies in Iceland. Iceland Travel is the Company's tour operator and destination manager focusing on offering top quality services to individuals and companies alike.

### Reportable segments for the six months ended 30 June 2016

	Route network		Tourism services		Total	
	1.4.-30.6.	1.1.-30.6.	1.4.-30.6.	1.1.-30.6.	1.4.-30.6.	1.1.-30.6.
External revenue .....	290.146	480.011	40.577	62.510	330.723	542.521
Inter-segment revenue .....	41.779	81.611	2.846	4.228	44.625	85.839
Segment revenue .....	<u>331.925</u>	<u>561.622</u>	<u>43.423</u>	<u>66.738</u>	<u>375.348</u>	<u>628.360</u>
Segment EBITDAR* .....	55.590	66.981	5.419	4.646	61.009	71.627
Segment EBITDA .....	50.055	55.607	2.405	( 935 )	52.460	54.672
Profit (loss) before taxes .....	<u>33.970</u>	<u>16.753</u>	<u>1.212</u>	<u>( 3.465 )</u>	<u>35.182</u>	<u>13.288</u>
Segment assets .....		<u>1.009.888</u>		<u>63.953</u>		<u>1.073.841</u>

### Reportable segments for the six months ended 30 June 2015

	Route network		Tourism services		Total	
	1.4.-30.6.	1.1.-30.6.	1.4.-30.6.	1.1.-30.6.	1.4.-30.6.	1.1.-30.6.
External revenue .....	261.342	430.082	32.263	49.183	293.605	479.265
Inter-segment revenue .....	33.288	64.768	1.906	2.830	35.194	67.598
Segment revenue .....	<u>294.630</u>	<u>494.850</u>	<u>34.169</u>	<u>52.013</u>	<u>328.799</u>	<u>546.863</u>
Segment EBITDAR* .....	54.720	61.236	4.659	4.673	59.379	65.909
Segment EBITDA .....	48.493	48.721	2.011	( 159 )	50.504	48.562
Profit (loss) before taxes .....	<u>26.026</u>	<u>11.856</u>	<u>981</u>	<u>( 1.625 )</u>	<u>27.007</u>	<u>10.231</u>
Segment assets .....		<u>815.708</u>		<u>45.738</u>		<u>861.446</u>

## Notes, contd.:

<b>Reconciliation of reportable segment income</b>	<b>2016</b>	<b>2015</b>
	<b>1.1.-30.6</b>	<b>1.1.-30.6</b>
Total profit for reportable segments .....	13.288	10.231
Unallocated amounts:		
Other corporate expenses .....	( 1.805 )	( 702 )
Share of profit of equity accounted investees .....	( 3 )	90
Consolidated profit before income tax .....	<u>11.480</u>	<u>9.619</u>

<b>Other material items 30 June 2016</b>	<b>Reportable segment</b>	<b>Adjustments</b>	<b>Consolidated</b>
Segment EBITDAR* .....	71.627	( 1.170 )	70.457
Segment EBITDA .....	54.672	( 1.170 )	53.502

\* EBITDAR means EBITDA before operating lease expences.

### **Seasonality**

The Group's business is highly seasonal with highest demand during the summer months.

## Notes, contd.:

### 5. Assets classified as held for sale

Assets classified as held for sale at end of June, consist of 4 Fokker 50 aircraft which Air Iceland has taken out of service.

### 6. Operating income

Transport revenue is specified as follows:

	2016 1.4.-30.6.	2015 1.4.-30.6.	2016 1.1.-30.6	2015 1.1.-30.6
Passengers .....	234.347	214.240	365.176	332.397
Cargo and mail .....	12.640	10.175	23.669	20.357
Total transport revenue .....	<u>246.987</u>	<u>224.415</u>	<u>388.845</u>	<u>352.754</u>

Other operating revenue is specified as follows:

Sale at airports and hotels .....	20.999	17.432	35.766	29.935
Revenue from tourism .....	28.668	22.230	44.971	36.431
Aircraft and cargo handling services .....	7.058	7.114	14.338	13.649
Maintenance revenue .....	751	533	1.122	1.049
Gain on sale of operating assets .....	305	55	305	158
Other operating revenue .....	5.874	4.167	10.795	7.866
Total other operating revenue .....	<u>63.655</u>	<u>51.531</u>	<u>107.297</u>	<u>89.088</u>

### 7. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries .....	58.328	45.534	101.380	80.919
Salary-related expenses .....	16.989	13.834	32.989	25.136
Other personnel expenses .....	16.646	11.991	29.070	22.391
Total salaries and personnel expenses .....	<u>91.963</u>	<u>71.359</u>	<u>163.439</u>	<u>128.446</u>

Aviation expenses are specified as follows:

Aircraft fuel .....	61.065	67.105	95.202	110.715
Aircraft lease .....	5.543	6.398	10.961	12.086
Aircraft handling, landing and communication .....	29.205	21.852	48.848	36.734
Aircraft maintenance expenses .....	20.274	20.281	41.225	38.004
Total aviation expenses .....	<u>116.087</u>	<u>115.636</u>	<u>196.236</u>	<u>197.539</u>

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures .....	6.313	5.650	11.998	10.708
Communication .....	5.807	4.301	10.696	8.664
Advertising .....	6.415	4.445	13.935	10.408
Booking fees and commission expenses .....	13.364	11.615	28.728	23.992
Cost of goods sold .....	6.764	5.682	11.612	9.895
Customer services .....	6.590	6.060	11.930	10.057
Tourism expenses .....	18.233	13.488	26.545	20.477
Allowance for bad debt .....	224	384	599	202
Other operating expenses .....	7.190	5.327	13.972	11.902
Total other operating expenses .....	<u>70.900</u>	<u>56.952</u>	<u>130.015</u>	<u>106.305</u>

## Notes, contd.:

### 8. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2016	2015	2016	2015
	1.4.-30.6.	1.4.-30.6.	1.1.-30.6	1.1.-30.6
Interest income on bank deposits .....	499	569	887	1.006
Other interest income .....	407	242	739	380
Net foreign exchange gain .....	3.801	459	3.541	2.311
Finance income total .....	4.707	1.270	5.167	3.697
Interest expenses on loans and borrowings .....	856	1.541	1.778	2.905
Other interest expenses .....	236	199	442	377
Finance costs total .....	1.092	1.740	2.220	3.282
Net finance income (costs) .....	3.615	( 470 )	2.947	415

### 9. Operating assets

Aquisition of operating assets in the first six months of 2016 amounted to USD 148.1 million. Included are five Boeing aircraft, overhaul of own engines and aircraft spare parts in the amount of USD 74.0 million.

### 10. Equity

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Total reserves
Reserves 1.1.2015 .....	( 23.941 )	27.136	3.195
Changes during the period .....	20.624	( 2.353 )	18.271
Reserves 30.6.2015 .....	( 3.317 )	24.783	21.466
Reserves 1.1.2016 .....	( 24.059 )	25.459	1.400
Changes during the period .....	28.300	3.520	31.820
Reserves 30.6.2016 .....	4.241	28.979	33.220

### 11. Loans and borrowings

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

	30.6.2016	31.12.2015
Non-current loans and borrowings are specified as follows:		
Secured bank loans .....	27.317	30.852
Unsecured loans .....	34.164	34.678
	61.481	65.530
Current maturities .....	( 10.473 )	( 10.143 )
Total non-current loans and borrowings .....	51.008	55.387

Terms and debt repayment schedule:

		Nominal interest rates	Year of maturity	Total remaining balance	
	Currency			30.6.2016	31.12.2015
Secured bank loans .....	USD	4,4%	2017-2024	25.578	29.256
Secured bank loans .....	ISK	0,0%	0	0	870
Secured bank loans, indexed .....	ISK	4,3%	2025	1.739	726
Unsecured bond issue .....	USD	4,3%	2020	23.604	23.596
Unsecured bond issue, indexed ....	ISK	5,7%	2023	10.560	11.082
Total interest-bearing liabilities .....				61.481	65.530

## Notes, contd.:

### 12. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	2016	2015
Repayments in 2016 (6 months)(2015: 12 months) .....	4.676	10.143
Repayments in 2017 .....	10.323	10.189
Repayments in 2018 .....	5.650	5.524
Repayments in 2019 .....	2.449	2.332
Repayments in 2020 .....	26.225	26.118
Subsequent repayments .....	12.158	11.224
Total loans and borrowings .....	61.481	65.530

### 13. Financial instruments and fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	30.6.2016		31.12.2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives, included in loans and receivables .....	5.410	5.410	3.104	3.104
Short term investments .....	13.196	13.196	19.533	19.533
Unsecured bond issue .....	( 34.164)	( 34.320)	( 34.678)	( 33.438)
Secured loans .....	( 27.317)	( 27.086)	( 30.852)	( 30.769)
Derivatives, included in payables and prepayments .....	( 132)	( 132)	( 33.075)	( 33.075)
Total .....	( 43.007)	( 42.932)	( 75.968)	( 74.645)

### 14. Off-balance sheet items

As a lessee the Group has in place operating leases for storage facilities, hotels, equipment and fixtures for its operations, the longest until the year 2041. The Group has also in place operating leases for aircraft which last from 9 months to 5 years. At the end of June 2016 the leases are payable as follows in nominal amounts for each year:

				Total
	Real estate	Aircraft	Other	30.6.2016
In Q3 - Q4 2016 .....	8.480	8.655	3.867	21.002
In the year 2017 .....	15.518	15.663	3.752	34.933
In the year 2018 .....	21.926	13.761	2.339	38.026
In the year 2019 .....	21.784	7.560	2.346	31.690
In the year 2020 .....	21.688	6.160	2.405	30.253
Subsequent .....	300.936	1.530	35.078	337.544
Total .....	390.332	53.329	49.787	493.448

### 15. Guarantees

IG Invest, a former subsidiary of the Company, has signed an agreement with Boeing for the purchase of one Boeing 787 Dreamliner aircraft to be delivered in the year 2017. Despite the disposal of IG Invest, Icelandair Group is still guarantor for these capital commitments.

As a part of the financial restructuring of the Company's balance sheet in 2010 the Company divested assets to its creditors for USD 59.1 million. Icelandair Group guarantees that the final sale price will be at least USD 31.4 million (ISK 4.0 billion), however the maximum guarantee is USD 3.9 million (ISK 0.5 billion). Based on the managements estimate the Company has fully provided for potential losses due to the guarantee.

## Notes, contd.:

### 16. Capital commitments

In February 2013 Icelandair Group and Boeing finalized an agreement for the purchase of sixteen 737 MAX8 and 737 MAX9 aircraft with an option to purchase additional eight aircraft. The delivery of the first aircraft is scheduled in the first half of 2018. The commitment for all sixteen aircraft was valued at USD 1.6 billion at Boeing list prices when the agreement was finalized. The Company received acceptable discounts which due to confidentiality agreements cannot be disclosed. Prepayments according to the agreement will be made over the construction period. The acquisition will be funded by internal resources and from aviation finance products.

The delivery plan is as follows:

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

### 17. Reassessment of taxes

On 15 April 2015 the Internal Revenue Board issued a ruling where a decision made by the Director of Internal Revenue was confirmed. The ruling disallows the Company to recognize as expenses for tax purposes certain interest expenses on loans that were transferred to the Company as a result of a reverse acquisition in 2006. The management does not agree with the ruling and an appeal to the District Court of Reykjavik is in process. The effect of the ruling has not been recognized in the financial statements, but if the court case will be lost the Company's equity would be reduced by USD 7.9 million.

### 18. Group entities

The Company held twelve subsidiaries at the end of June 2016. The subsidiaries which are all included in the consolidated interim financial statements are as follows:

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

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

### 19. Statement of cash flows

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

	2016	2015	2016	2015
	1.4.-30.6.	1.4.-30.6.	1.1.-30.6	1.1.-30.6
Expensed deferred cost .....	1.676	2.950	3.961	5.841
Exchange rate differences .....	( 64 )	534	228	293
Gain on sale of operating assets .....	( 322 )	( 56 )	( 305 )	( 159 )
Share in loss (profit) of associates .....	58	0	3	( 90 )
Income tax .....	6.595	1.946	2.307	( 1.806 )
Other operating items total .....	7.943	5.374	6.194	4.079

## Notes, contd.:

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

	2016	2015	2016	2015
	1.4.-30.6.	1.4.-30.6.	1.1.-30.6	1.1.-30.6
Inventories, increase .....	( 1.182 )	( 3.870 )	( 1.415 )	( 2.318 )
Trade and other receivables, decrease (increase) ...	39.045	13.890	( 22.173 )	( 5.035 )
Trade and other payables, increase .....	18.753	14.975	67.919	25.581
Deferred income, increase .....	5.710	12.118	163.764	135.408
Net change in operating assets and liabilities .....	<u>62.326</u>	<u>37.113</u>	<u>208.095</u>	<u>153.636</u>

21. Additional cash flow information:

Interest expenses paid .....	835	1.107	2.608	3.085
Interest income received .....	335	114	649	591

### 22. Ratios

The Group's primary ratios are specified as follows:

	30.6.2016	31.12.2015
Current ratio .....	0,72	0,80
Equity ratio .....	0,39	0,47
Intrinsic value of share capital .....	11,60	11,25

### 23. Significant accounting policies

The accounting policies and methods of computation applied in these interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2015.

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