

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

The condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 30 September 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 September 2016 amounted to USD 111.9 million. Total comprehensive profit for the period was USD 153.3 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 582.9 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 nine months ended 30 September 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 nine month period ended 30 September 2016, its assets, liabilities and consolidated financial position as at 30 September 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 September 2016 and confirm them by means of their signatures.

Reykjavík, 27 October 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 September 30 2016

	Notes	2016 1.7.-30.9.	2015 1.7.-30.9. *Restated	2016 1.1.-30.9.	2015 1.1.-30.9. *Restated
Operating income					
Transport revenue	7	373.192	332.932	762.037	685.686
Aircraft and aircrew lease		19.149	19.798	66.199	58.243
Other operating revenue	7	93.569	76.716	200.866	165.804
		485.910	429.446	1.029.102	909.733
Operating expenses					
Salaries and other personnel expenses		94.736	73.250	256.078	201.665
Aviation expenses		135.465	124.644	331.658	322.107
Other operating expenses		93.959	75.932	223.974	182.237
	8	324.160	273.826	811.710	706.009
Operating profit before depreciation and amortisation (EBITDA)		161.750	155.620	217.392	203.724
Depreciation and amortisation		(29.622)	(23.869)	(74.588)	(62.752)
Operating profit before net finance costs (EBIT)		132.128	131.751	142.804	140.972
Finance income		510	597	2.454	3.884
Finance costs		(2.176)	(1.975)	(3.313)	(4.954)
Net finance costs	9	(1.666)	(1.378)	(859)	(1.070)
Share of profit of associates, net of tax		363	381	360	471
Profit before tax		130.825	130.754	142.305	140.373
Income tax		(28.060)	(27.611)	(30.367)	(29.417)
Profit for the period		102.765	103.143	111.938	110.956
Other comprehensive income:					
Foreign currency translation differences of foreign operations		7.683	1.948	11.205	(414)
Effective portion of changes in fair value of cash flow hedge, net of tax		1.879	(6.644)	30.179	13.980
Other comprehensive profit (loss) for the period		9.562	(4.696)	41.384	13.566
Total comprehensive profit for the period		112.327	98.447	153.322	124.522
Profit attributable to:					
Owners of the Company		102.628	103.127	111.723	110.977
Non-controlling interest		137	16	215	(21)
Profit for the period		102.765	103.143	111.938	110.956
Total Comprehensive profit attributable to:					
Owners of the Company		112.158	98.425	153.073	124.546
Non-controlling interest		169	22	249	(24)
Total comprehensive profit for the period		112.327	98.447	153.322	124.522
Profit per share:					
Basic profit per share in US cent per share		2,07	2,07	2,25	2,23
Diluted profit per share in US cent per share		2,07	2,07	2,25	2,23

* See note 3

The notes on pages 8 to 16 are an integral part of these interim consolidated financial statements.

Consolidated Statement of Financial Position as at 30 September 2016

	Notes	30.9.2016	31.12.2015
Assets			
Operating assets	10	545.227	419.071
Intangible assets and goodwill		174.533	172.694
Investments in associates		22.413	18.223
Deferred cost		75	118
Receivables and deposits		68.486	27.474
Non-current assets		810.734	637.580
Inventories		20.999	19.205
Trade and other receivables		153.568	101.075
Assets held for sale	6	4.148	0
Short term investments		3.173	19.533
Cash and cash equivalents		191.397	194.586
Current assets		373.285	334.399
Total assets		1.184.019	971.979
Equity			
Share capital		40.576	40.576
Share premium		154.705	154.705
Reserves	11	113.114	1.400
Retained earnings		274.137	259.746
Equity attributable to equity holders of the Company		582.532	456.427
Non-controlling interest		353	104
Total equity		582.885	456.531
Liabilities			
Loans and borrowings	12	49.571	55.387
Payables		12.894	8.644
Deferred tax liabilities		77.743	35.485
Non-current liabilities		140.208	99.516
Loans and borrowings	12	10.802	10.143
Trade and other payables		257.024	219.680
Deferred income		193.100	186.109
Current liabilities		460.926	415.932
Total liabilities		601.134	515.448
Total equity and liabilities		1.184.019	971.979

The notes on pages 8 to 16 are an integral part of these interim consolidated financial statements.

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

Attributable to equity holders of the Company							
1 January to 30 September 2015	Share capital	Share premium	Reserves	Retained earnings	Total	Non-con- trolling interest	Total equity
Equity 1.1.2015	40.576	154.705	3.195	166.371	364.847	208	365.055
Total comprehensive profit			13.569	110.977	124.546	(24)	124.522
Dividend (0.36 US cent per share) ..				(17.943)	(17.943)		(17.943)
Equity 30 September 2015	40.576	154.705	16.764	259.405	471.450	184	471.634
1 January to 30 September 2016							
Equity 1.1.2016	40.576	154.705	1.400	259.746	456.427	104	456.531
Total comprehensive profit			41.350	111.723	153.073	249	153.322
Profit of subsidiaries in excess of dividend received			70.364	(70.364)			
Dividend (0.54 US cent per share) ..				(26.968)	(26.968)		(26.968)
Equity 30 September 2016	40.576	154.705	113.114	274.137	582.532	353	582.885

Information on changes in reserves are provided in note 11.

The notes on pages 8 to 16 are an integral part of these interim consolidated financial statements.

Consolidated Statement of Cash Flows for the nine months ended 30 September 2016

	Note:	2016 1.7.-30.9.	2015 1.7.-30.9.	2016 1.1.-30.9	2015 1.1.-30.9
Cash flows (used in) from operating activities					
Profit for the period		102.765	103.143	111.938	110.956
Adjustments for:					
Depreciation and amortisation		29.622	23.869	74.588	62.752
Other operating items	20	28.782	30.394	34.976	34.473
Working capital from operations		<u>161.169</u>	<u>157.406</u>	<u>221.502</u>	<u>208.181</u>
Net change in operating assets and liabilities	21	(181.102)	(153.321)	26.993	315
Net cash (used in) from operating activities		<u>(19.933)</u>	<u>4.085</u>	<u>248.495</u>	<u>208.496</u>
Cash flows used in investing activities:					
Acquisition of operating assets		(45.453)	(38.893)	(193.555)	(94.760)
Proceeds from the sale of operating assets		548	1.581	1.026	1.886
Acquisition of intangible assets		(360)	(104)	(915)	(843)
Capitalised deferred cost		(819)	(7.546)	(9.205)	(14.013)
Investment in associates, change		(1.260)	(15.711)	(1.260)	(15.711)
Non-current receivables, change		(26.376)	(7.430)	(34.246)	(11.414)
Marketable securities, change		10.025	7.838	16.382	2.420
Net cash used in investing activities		<u>(63.695)</u>	<u>(60.265)</u>	<u>(221.773)</u>	<u>(132.435)</u>
Cash flows used in financing activities:					
Dividend paid		0	0	(26.968)	(17.943)
Proceeds from non-current borrowing		0	0	700	23.660
Repayment of non-current borrowings		(2.289)	(2.868)	(7.816)	(9.421)
Net cash used in financing activities		<u>(2.289)</u>	<u>(2.868)</u>	<u>(34.084)</u>	<u>(3.704)</u>
(Decrease) increase in cash and cash equivalents		(85.917)	(59.048)	(7.362)	72.357
Effect of exchange rate fluctuations on cash held		2.898	698	4.173	(566)
Cash and cash equivalents at beginning of the period		274.416	314.903	194.586	184.762
Cash and cash equivalents at 30 September		<u>191.397</u>	<u>256.553</u>	<u>191.397</u>	<u>256.553</u>

Information on interest paid and received are provided in note 22.

The notes on pages 8 to 16 are an integral part of these interim consolidated financial statements.

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The condensed consolidated interim financial statements of the Company as at and for the nine months ended 30 September 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 and at The Icelandic Stock Exchange website, 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 October 2016.

3. Changes in presentation

Hedge accounting

The Group has changed its presentation of realized currency translation difference of cash flow hedges in the Statement of comprehensive income. After the change the currency difference is presented in the Statement of Comprehensive income within the same line item as the hedged item is presented. Previously all currency differences on hedges were presented among finance income and expenses. The change had following effects on comparative numbers:

1.7.-30.9.2016

	2016		2016
	1.7.-30.9.		1.7.-30.9.
	Original	Change	Restated
Salaries and other personnel expenses	99.109	4.373	94.736
Aviation expenses	135.554	89	135.465
Net finance income (costs)	2.806 (4.472) (1.666)

1.7.-30.9.2015

	2015		2015
	1.7.-30.9.		1.7.-30.9.
	Original	Change	Restated
Salaries and other personnel expenses	74.627	1.377	73.250
Aviation expenses	128.012	3.368	124.644
Net finance income (costs)	3.367 (4.745) (1.378)

1.1.-30.9.2016

	2016		2015
	1.1.-30.9.		1.1.-30.9.
	Original	Change	Restated
Salaries and other personnel expenses	262.559	6.481	256.078
Aviation expenses	331.790	132	331.658
Net finance income (costs)	5.754 (6.613) (859)

Notes, contd.:

3. Continued:

1.1.-30.9.2015

	2015		2015
	1.1.-30.9.		1.1.-30.9.
	Original	Change	Restated
Salaries and other personnel expenses	203.073	1.408	201.665
Aviation expenses	325.551	3.444	322.107
Net finance income (costs)	3.782	(4.852)	(1.070)

4. 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.:

5. 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 nine months ended 30 September 2016

	Route network		Tourism services		Total	
	1.7.-30.9.	1.1.-30.9.	1.7.-30.9.	1.1.-30.9.	1.7.-30.9.	1.1.-30.9.
External revenue	415.871	895.882	68.842	131.352	484.713	1.027.234
Inter-segment revenue	42.649	124.260	4.159	8.387	46.808	132.647
Segment revenue	458.520	1.020.142	73.001	139.739	531.521	1.159.881
Segment EBITDAR*	156.793	223.774	15.256	19.902	172.049	243.676
Segment EBITDA	147.394	207.473	11.577	10.642	158.971	218.115
Profit before taxes	121.589	138.342	8.636	5.171	130.225	143.513
Segment assets		970.575		82.793		1.053.368

Reportable segments for the nine months ended 30 September 2015

	Route network		Tourism services		Total	
	1.7.-30.9.	1.1.-30.9.	1.7.-30.9.	1.1.-30.9.	1.7.-30.9.	1.1.-30.9.
External revenue	374.211	804.293	54.819	104.002	429.030	908.295
Inter-segment revenue	37.251	102.019	4.520	7.350	41.771	109.369
Segment revenue	411.462	906.312	59.339	111.352	470.801	1.017.664
Segment EBITDAR*	155.632	216.974	12.841	17.514	168.473	234.488
Segment EBITDA	149.791	198.619	9.629	9.470	159.420	208.089
Profit before taxes	125.376	137.232	8.123	6.498	133.499	143.730
Segment assets		810.449		50.775		861.224

Notes, contd.:

Reconciliation of reportable segment income	2016	2015
	1.1.-30.9	1.1.-30.9
Total profit for reportable segments	143.513	143.730
Unallocated amounts:		
Other corporate expenses	(1.568)	(3.828)
Share of profit of equity accounted investees	360	471
Consolidated profit before income tax	<u>142.305</u>	<u>140.373</u>

Other material items 30 September 2016	Reportable segment	Adjustments	Consolidated
Segment EBITDAR*	243.676	(723)	242.953
Segment EBITDA	218.115	(723)	217.392

* EBITDAR means EBITDA before operating lease expences.

Seasonality

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

Notes, contd.:

6. Assets classified as held for sale

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

7. Operating income

Transport revenue is specified as follows:

	2016 1.7.-30.9.	2015 1.7.-30.9.	2016 1.1.-30.9	2015 1.1.-30.9
Passengers	358.593	321.845	723.769	654.242
Cargo and mail	14.599	11.087	38.268	31.444
Total transport revenue	<u>373.192</u>	<u>332.932</u>	<u>762.037</u>	<u>685.686</u>

Other operating revenue is specified as follows:

Sale at airports and hotels	32.655	22.095	68.421	52.030
Revenue from tourism	47.149	40.677	92.120	77.108
Aircraft and cargo handling services	4.882	7.570	19.220	21.219
Maintenance revenue	946	1.684	2.068	2.733
Gain on sale of operating assets	431	667	736	825
Other operating revenue	7.506	4.023	18.301	11.889
Total other operating revenue	<u>93.569</u>	<u>76.716</u>	<u>200.866</u>	<u>165.804</u>

8. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	66.897	51.072	166.704	131.967
Salary-related expenses	11.985	9.030	44.450	34.159
Other personnel expenses	15.854	13.148	44.924	35.539
Total salaries and personnel expenses	<u>94.736</u>	<u>73.250</u>	<u>256.078</u>	<u>201.665</u>

Aviation expenses are specified as follows:

Aircraft fuel	73.056	73.475	168.215	184.114
Aircraft lease	4.375	5.932	15.336	18.018
Aircraft handling, landing and communication	38.884	31.679	87.732	68.413
Aircraft maintenance expenses	19.150	13.558	60.375	51.562
Total aviation expenses	<u>135.465</u>	<u>124.644</u>	<u>331.658</u>	<u>322.107</u>

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures	7.477	6.063	19.475	16.771
Communication	5.983	4.323	16.679	12.987
Advertising	6.837	5.913	20.772	16.321
Booking fees and commission expenses	13.640	14.234	42.368	38.226
Cost of goods sold	8.103	6.642	19.715	16.537
Customer services	10.175	6.723	22.105	16.780
Tourism expenses	33.121	24.782	59.666	45.259
Allowance for bad debt	523	713	1.122	915
Other operating expenses	8.100	6.539	22.072	18.441
Total other operating expenses	<u>93.959</u>	<u>75.932</u>	<u>223.974</u>	<u>182.237</u>

Notes, contd.:

9. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2016 1.7.-30.9.	2015 1.7.-30.9.	2016 1.1.-30.9	2015 1.1.-30.9
Interest income on bank deposits	46	419	933	1.425
Other interest income	464	178	1.203	558
Net foreign exchange gain	0	0	318	1.901
Finance income total	510	597	2.454	3.884
Interest expenses on loans and borrowings	877	1.456	2.655	4.361
Other interest expenses	216	216	658	593
Net foreign exchange loss	1.083	303	0	0
Finance costs total	2.176	1.975	3.313	4.954
Net finance costs	(1.666)	(1.378)	(859)	(1.070)

10. Operating assets

Aquisition of operating assets in the first nine months of 2016 amounted to USD 193.6 million. Included are five Boeing aircraft, overhaul of own engines and aircraft spare parts in the amount of USD 100.2 million.

11. Equity

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Other reserves	Total reserves
Reserves 1.1.2015	(23.941)	27.136	0	3.195
Changes during the period	13.980	(411)	0	13.569
Reserves 30.9.2015	(9.961)	26.725	0	16.764
Reserves 1.1.2016	(24.059)	25.459	0	1.400
Share in profit of subsidiaries and associates			114.226	114.226
Dividend received			(43.862)	(43.862)
Other changes during the period	30.179	11.171		41.350
Reserves 30.9.2016	6.120	36.630	70.364	113.114

According to changes made to the Icelandic Financial Statements Act in 2016, companies must present in a separate equity account recognized share in profit of subsidiaries and associates is in excess of dividend received or declared. The effects of the new legislation have not been fully evaluated as uncertainty prevails regarding the scope and transition of the change.

12. Loans and borrowings

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

	30.9.2016	31.12.2015
Non-current loans and borrowings are specified as follows:		
Secured bank loans	25.240	30.852
Unsecured loans	35.133	34.678
	60.373	65.530
Current maturities	(10.802)	(10.143)
Total non-current loans and borrowings	49.571	55.387

Notes, contd.:

12. Continued:

Terms and debt repayment schedule:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance	
				30.9.2016	31.12.2015
Secured bank loans	USD	4,4%	2017-2024	23.342	29.256
Secured bank loans	ISK	0,0%	0	0	870
Secured bank loans, indexed	ISK	4,3%	2025	1.898	726
Unsecured bond issue	USD	4,3%	2020	23.608	23.596
Unsecured bond issue, indexed	ISK	5,7%	2023	11.525	11.082
Total interest-bearing liabilities				60.373	65.530

13. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	2016	2015
Repayments in 2016 (3 months)(2015: 12 months)	2.441	10.143
Repayments in 2017	10.455	10.189
Repayments in 2018	5.790	5.524
Repayments in 2019	2.594	2.332
Repayments in 2020	26.378	26.118
Subsequent repayments	12.715	11.224
Total loans and borrowings	60.373	65.530

14. Financial instruments and fair values

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

	30.9.2016		31.12.2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives, included in loans and receivables	0	0	3.104	3.104
Short term investments	3.173	3.173	19.533	19.533
Unsecured bond issue	(35.133)	(35.669)	(34.678)	(33.438)
Secured loans	(25.240)	(25.225)	(30.852)	(30.769)
Derivatives, included in payables and prepayments	0	0	(33.075)	(33.075)
Total	(57.200)	(57.721)	(75.968)	(74.645)

15. 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 2 years to 7 years. At the end of September 2016 the leases are payable as follows in nominal amounts for each year:

	Real estate	Aircraft	Other	Total
				30.9.2016
In Q4 2016	4.159	4.329	1.379	9.867
In the year 2017	17.200	16.761	7.248	41.209
In the year 2018	22.274	15.225	2.545	40.044
In the year 2019	23.746	9.024	2.555	35.325
In the year 2020	23.547	7.624	2.619	33.790
Subsequent	327.611	4.946	38.203	370.760
Total	418.537	57.909	54.549	530.995

Notes, contd.:

16. 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.

17. 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

18. 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.

19. Group entities

The Company held twelve subsidiaries at the end of September 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.

Notes, contd.:

20. Statement of cash flows

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

	2016	2015	2016	2015
	1.7.-30.9.	1.7.-30.9.	1.1.-30.9	1.1.-30.9
Expensed deferred cost	2.445	(32)	6.406	5.809
Exchange rate differences	(929)	250	(701)	543
Gain on sale of operating assets	(431)	(666)	(736)	(825)
Share in profit of associates	(363)	(381)	(360)	(471)
Income tax	28.060	31.223	30.367	29.417
Other operating items total	<u>28.782</u>	<u>30.394</u>	<u>34.976</u>	<u>34.473</u>

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

	2016	2015	2016	2015
	1.7.-30.9.	1.7.-30.9.	1.1.-30.9	1.1.-30.9
Inventories, increase	(329)	(202)	(1.744)	(2.520)
Trade and other receivables, decrease (increase) ...	6.576	(7.320)	(15.597)	(12.355)
Trade and other payables, (decrease) increase	(29.734)	(15.480)	38.185	10.101
Deferred income, (decrease) increase	(157.615)	(130.319)	6.149	5.089
Net change in operating assets and liabilities	<u>(181.102)</u>	<u>(153.321)</u>	<u>26.993</u>	<u>315</u>

22. Additional cash flow information:

Interest expenses paid	994	1.399	3.602	4.484
Interest income received	842	259	1.491	594

23. Ratios

The Group's primary ratios are specified as follows:

	30.9.2016	31.12.2015
Current ratio	0,81	0,80
Equity ratio	0,49	0,47
Intrinsic value of share capital	14,37	11,25

24. 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.