

Annual Report 2015



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About the Annual Report

In Icelandair Group's annual report for 2015 we offer you a glimpse into the breathtaking nature Iceland has to offer, as captured by the photographer Björn Árnason. Other pictures by Baldur Kristján.

Texts on pages with landscape pictures from Iceland are extracts from poems by the Icelandic Canadian poet Stephan G. Stephansson (1853–1927) in translations by Bernard Scudder, Paul Bjarnason and Watson Kirkconnell. ■

01

Over earth or heaven
as your spirit desires,
falls and slopes adorn
all your future lands!

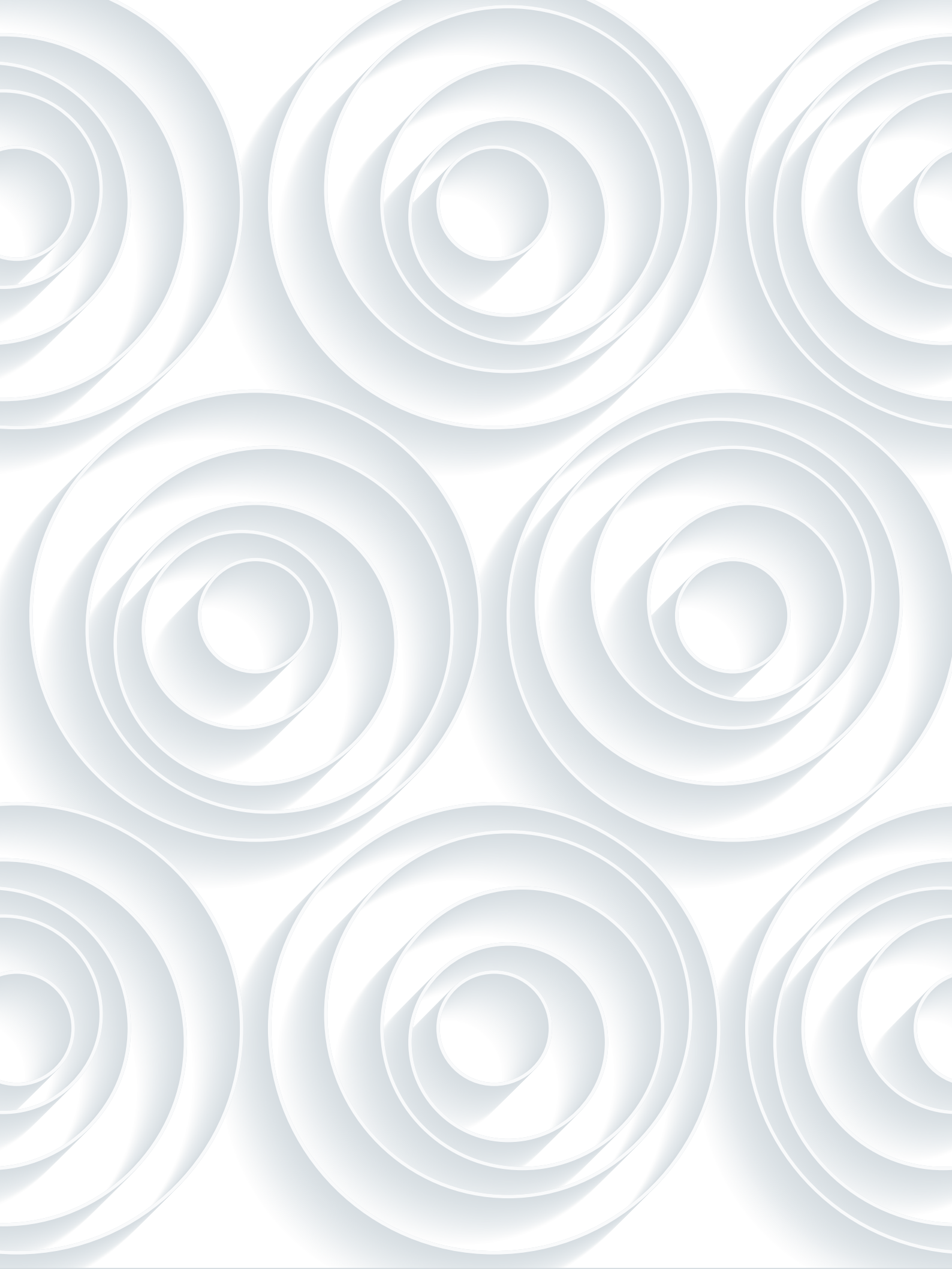
The Icелander's Day Address (1904)





Our Vision

To unlock Iceland's potential as a [year-round destination](#), to strengthen Iceland's position as a [connecting hub](#) and to maintain our focus on [flexibility](#) and [experience](#)



Interview with the Chairman of the Board of Directors and the President & CEO Strategic Growth and Increased Profitability



Icelandair Group returned a record profit of USD 111 million in 2015, with total revenue exceeding USD 1.1 billion. The results for 2015 are the best in the Company's long history. For the first time international passenger numbers passed the 3-million mark, with an 18% increase between years. **Sigurður Helgason**, Chairman of the Board, and **Björgólfur Jóhannsson**, President & CEO, are pleased with the results and operations in 2015.

"These results testify to the success of the strategy of sustainable growth that Icelandair Group has followed for the past years" says **Sigurður**. "We have increased our capacity on our North Atlantic routes, strengthened Iceland's position as a prominent transatlantic hub and gradually increased our market share in this extremely competitive market. Our foundations are solid; we hold a good position across the value chain in international aviation, in domestic air travel, in the Icelandic hotel market and in other areas of tourist services. At the same time, our interests are interlinked with the success of Iceland as a tourist destination, and we take pride in our ongoing campaign to promote Iceland internationally as a world-class, year-round destination. Our dedication to Iceland has been instrumental in developing tourism as the driving force of the Icelandic economy and its largest export sector."

Björgólfur says a number of interacting factors contributed to the strong performance, "including falling fuel prices, increased demand in the North Atlantic market – which was met by increased capacity – and good results from charter and cargo operations. Hotel room occupancy has also increased between years. The Company's EBITDA exceeded the forecast we published in the first quarter and amounted to USD 219 million, up from USD 154 million the year before. The year as a whole saw profitable organic growth with net profit at USD 111 million, up by USD 45 million, or 67%. Total income was USD 1,140 million, up by 2% between years. At a fixed exchange rate the increase in revenue was 12%. Since 2010 Icelandair Group's operations have shown a growing momentum, with income up by USD 422 million, from USD 718 million in 2010 to USD 1,140 million in 2015. These strong financial results have

strengthened the Company's balance sheet, and equity now stands at USD 457 million, total assets at USD 972 million and our year-end equity ratio at 47%. Cash and cash equivalents in excess of interest bearing debt amounted to USD 149 million at the end of the year."

Iceland has seen significant growth in tourism in recent years, breaking records every single year for the past 6 years in a row. Is that the key to Icelandair Group's performance?

"Of course the Company is benefiting from the current interest in Iceland as a tourist destination," says **Björgólfur**.

"However, the business model of Icelandair Group's international Route Network focuses not on one market, but on three: the tourist market TO Iceland, the domestic market FROM Iceland and the VIA market on the transatlantic route between Europe and North America through Iceland, our fastest growing market. Since 2009, the composition of our passengers has changed profoundly. Passengers travelling through Iceland, between Europe and North America, are now 49% of all our passengers, as compared to 29% in 2009. The number of passengers travelling with Icelandair between the two continents through Iceland has grown from 372 thousand to one and a half million, or by 1.1 million since 2009. This shows that the increased interest in visiting Iceland explains only a part of our growth. It is also important to bear in mind that even though demand is high, the passenger load factor good, and external conditions favourable, this does not change the fact that we have to focus on cost control. Streamlined operations are just as important when things are going well. Last year we continued to streamline our operations while at the same time investing in our infrastructure as a



“ Iceland's geographical position plays a key role in the future development of the Route Network.”

platform for continued growth.”

Sigurður: “The Group's international Route Network has developed and expanded, both in breadth and depth. In recent years the growth in our Route Network has been on two fronts: on the one hand we have increased the number of flights to current destinations, which improved our product offering in our current markets. On the other hand we have introduced new destinations, which increases the connectivity of the network. One of the most important strategic decisions made by the Company relate to the development of the Route Network, new destinations, changes in capacity and frequency. Icelandair has taken advantage of a number of opportunities in recent years, but even with all that growth our market share in the North Atlantic market remains miniscular. This reflects the sheer size of the Trans-Atlantic market.

We have gone to great lengths in constantly re-evaluating the way we do business to improve our operations. Even though we currently have the wind in our back, and even though we can take pleasure in looking over our shoulder at the success we have achieved, it is a sign of our strength that our sights remain firmly on the mission ahead. The rapid growth of recent years has tested the Company's infrastructure, but it has also made that infrastructure stronger than ever before. Continued development of an international airport in Iceland is vital to support Icelandair Group's ambitious vision to strengthen Iceland as a connecting hub.”

Strategic Growth and Increased Profitability, continued

What are the prospects for 2016?

Björgólfur: The outlook for our operations in 2016 is good. Last fall the Group presented its international flight schedule for 2016, which assumed an increase in capacity of 18% between years. Sales have been strong since, and in fact the inflow of bookings has been so strong that we decided to add one more Boeing 757 into our fleet, taking the total increase in capacity to 24%. Further growth is expected in the market TO Iceland, and growth is also anticipated in the VIA market between Europe and N-America. We will continue the ongoing ambitious expansion of our hotel business in downtown Reykjavik and general prospects in the Icelandic tourist industry are firm. We also believe that the outlook for cargo and charter operations in 2016 is encouraging. However it is important to bear in mind, that external factors, such as fluctuations in fuel prices and the currency markets, can significantly impact the Group's performance."

One persistent characteristic of the Company's operation has been seasonal fluctuations, do you see any change in this going forward?

Sigurður: "Although our business environment is inherently seasonal we have systematically addressed the seasonality by increasing the supply in our Route Network in the winter, spring and autumn – to the benefit of Iceland as a year-round tourist destination. The Icelandic winter is an underutilised resource that needs to be leveraged further to increase the efficiency and profitability of Icelandair Group and enhance the viability of Icelandic tourism as a major contributor to the Icelandic economy. Seeing profit in the Company's fourth-quarter operation for the first time in its history was a hugely important



Investment in infrastructure needs to become a higher priority in Iceland going forward.

milestone for us and the fruit of the strategy we have followed. We take pride in the success of our efforts to build up Iceland as a world-class year-round destination."

Competition is increasing continually, particularly in flights to Iceland. How do you see the future in that regard?

Björgólfur: "The competitive environment of Icelandair Group's flight operations has changed profoundly in recent years. The time when Icelandair was virtually the only option for international travel to and from Iceland is gone. We see that the number of available flights to and from Iceland is growing year by year, and last year over 20 airlines had scheduled air services through Keflavik Airport. In addition, a number of airlines have announced an increase in the frequency of flights to and from Iceland and still others have announced plans to include Iceland on their routes. While demand is high, competition will grow. Icelandair is also in tough competition with other airlines offering direct flights across the North Atlantic. Because of the international competitive environment faced by the Company it is important for the Icelandic government to refrain from weakening the competitive position of Icelandic airlines by placing added burdens on Icelandic companies that their foreign competitors do not have to contend with. While we anticipate continued and increasing competitive pressure, we are confident that our Company, with its unique business model, is well placed to continue onward and upward in the challenging terrain that lies ahead."

*How do the years ahead look to you?
Can the Company continue to grow?*

Björgólfur: "Icelandair has a number of opportunities for profitable growth. In 1990 the international Network comprised 12 destinations with the option of 39 connections for our customers. In the millennium year the international Route Network comprised 17 destinations, but the connectivity options rose to 83. A decade and a half later, the 2016 schedule now comprises 43 destinations offering our customers 427 connection options. I believe that these numbers highlight the scalability of the business model of the Route Network, and the increase in the size of the Company's fleet of aircraft will improve its efficiency. In my mind, the comparison of connection options through Iceland illustrates better than ever before the efficiency and opportunities afforded by a growing Route Network. It is worth noting in this context that Iceland's geographical position plays a key role in the future development of the Route Network. The possibilities are endless, and our Company commands an outstanding staff, sound knowledge, extensive experience and a strong will to make use of these resources. The introduction of a new fleet, with the first deliveries of Boeing 737 MAX aircraft scheduled in 2018, will create further opportunities for the Company. A mixed fleet of Boeing 767s, 757s and Boeing 737 MAX aircraft will suit our Route Network perfectly, as the entire fleet will have the reach needed to fly to both Europe and North America from the connecting hub in Iceland. The new aircraft will be a great addition to the fleet and increase both flexibility and capacity for growth through added frequency and new destinations."



Icelandair Group
has a number of
opportunities for
profitable growth.

*How has the shareholder base
developed for the past few years?*

Sigurður: "The number of the Company's shareholders has grown steadily, to 2,400 at the end of 2015, up by just short of 14% from the preceding year. It is important for any company to have the backing of a strong group of shareholders – and it is no less important for the shareholder group to be large and diverse. Pension funds, directly and indirectly, have been the Company's largest shareholders in recent years and it is a matter of great satisfaction that the significant increase in the value of the Company over the past five years is being returned to the vast majority of Icelanders through their pension funds. The Company's share price appreciated by over 65% in 2015, and dividends were paid out in the amount of USD 18 million, yielding total shareholder return of 67%. Since Icelandair Group's dividend policy was approved in 2011 the Company has returned USD 64 million in dividend payments to shareholders. The aggregate pay-out equals 1.64 US cents per share, and the dividend pay-out has added 33 percentage points to total shareholder returns over the period. The Board of Directors is proposing a USD 27 million dividend payment to shareholders this year, which is in line with the Company's dividend policy. I would like to thank our fellow shareholders for their continued support of the Company." ■

02

Far on eternity's ocean
your island stands watch ...

The Icелander's Day Address (1904)





We are Icelandair Group

Icelandair Group operates in the international airline and tourism sectors, with Iceland as the focal point of its international Route Network.

We believe that our current portfolio of companies in the aviation and tourist services sectors is both stable and mutually reinforcing, covering wide range of the industries' value chain. We strive to retain a high level of flexibility to adapt to unforeseen changes in the market environment to better serve our customers and continuously meet our stakeholders' expectations.

Icelandair Group's business concept is built on Icelandair's Route Network and on marketing Iceland as a year-round destination. In addition to the international passenger flights operated by Icelandair, the Group has extensive interests in most other parts of Icelandic tourism and aviation, including hotel chains, travel agencies, regional airline and cargo, support services and ground handling and technical services, in addition to its leasing and charter operations. In 2015 the Group employed an average of 3,384 full-time employees, generated total revenues in excess of USD 1.1 billion and carried approximately 3.4 million passengers on its international and regional routes.



The main focus of the Route Network is to operate flights based on the Hub and Spoke concept, taking advantage of the country's geographical location, by efficiently connecting flights between Europe and North America via the hub in Iceland.

The Route Network is our cornerstone

In 2015 Icelandair flew to 39 destinations in the international Route Network, 14 in North America and Canada and 25 in Europe. The Route Network is based on a 24-hour rotation schedule with morning and afternoon connections through the hub in Iceland and offering an increasing number of connections outside the two main connection banks.

At year-end 2015 the fleet consisted of 24 aircraft.



Our strategy

Icelandair Group's strategy is regularly and continually tested in order to enable the Company to fully understand the competitive market in which it operates and to take advantage of any hidden opportunities that may exist and any new opportunities that may arise. To this end we strive to develop tools that will enable us to create more value than our competitors for the benefit of all of our stakeholders.

The Group's long-term strategy remains firmly centred on five key points:

- #1**

Focusing on route networks and tourism services
- #2**

Reducing seasonality in the Group's operations
- #3**

Focusing on organic growth and business development
- #4**

Achieving greater synergies between Group companies
- #5**

Improving efficiency with special emphasis on continuous cost control

We are Icelandair Group, continued

Our building blocks of sustainable shareholder value

Icelandair Group's strategy can be graphically illustrated in the shape of building blocks, rising in order to show our approach to the Company's strategic development from the ground up. At the base is the day-to-day focus of our employees on current operations and at the top is our vision for Icelandair Group.

Our building blocks of sustainable shareholder value

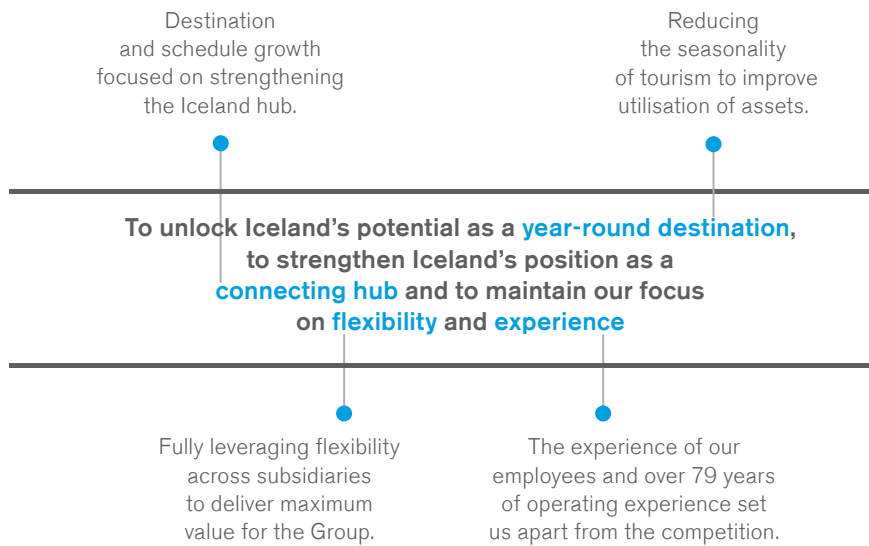


The top three building blocks represent our long-term aspirations and corporate conduct. They are the core of our competitive advantage and determine how we structure our operations to leverage our strengths. In essence, they determine our strategic direction and serve as the lens through which we evaluate new projects and strategic initiatives.

The bottom two building blocks represent our short-term focus on profitable operation. They are revised annually and updated to capitalise on emerging short-term and long-term trends. The strategic initiatives are the engine that drives the long-term strategic direction of the Group and the goals provide us with important checkpoints along the way to monitor our progress.

Vision statement

Our vision statement encapsulates our aspirations. It is a powerful tool to rally all our stakeholders in a common future direction. It reflects our ambitions and quantifies our goals of unwavering commitment to connect Iceland.



Vision

The vision belongs to Icelandair Group as a whole, and all our employees contribute to its realisation. Through our goals and strategic initiatives we translate our aspirations into actions that can be measured and managed throughout the business cycle. The essence of our vision encompasses the focal points of our business concept of leveraging our strengths; to us, these points are much more than mere words on paper.

■ **Year-round tourist destination**

Icelandair Group has been at the forefront of devising a long-term strategy for Iceland as world-class destination, and through our investments in Icelandic tourism we have played a leading role in a sustained campaign of development and promotion that benefits not only our own operations but the entire Icelandic travel industry.

■ **Strengthen Iceland as a connecting hub**

Steadily expanding Icelandair's Route Network, which has grown by 20 destinations from the year 2009, is the Group's key to enhancing Iceland's position as an international connecting hub.

■ **Focus on flexibility and experience**

Our unique talent pool remains our primary source of strength, as our employees have proven time and again.

We are Icelandair Group, continued

Operating pillars

Operating pillars of Icelandair Group

We depict our vision as a structure resting on three pillars: the growth of Icelandic tourism, the growth of connecting VIA traffic and a combination of flexibility and experience.

Sustainable value creation for our shareholders and other stakeholders lies at the heart of our organisation. The best way for us to succeed in this effort is to maintain our traditional dedication and commitment to connecting Iceland by drawing on the strength of our operating pillars.

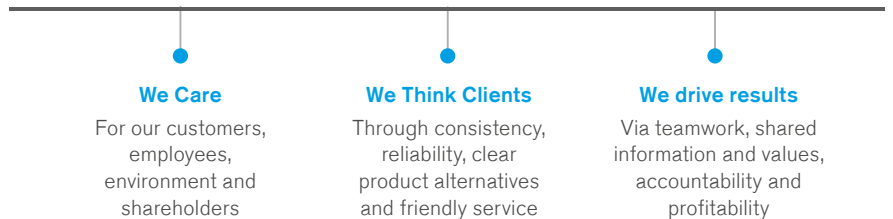


Icelandair Group has several supporting subsidiaries that provide capabilities which enable the Group to expand its profitable operations.

Values

Values

Our core values are grounded in the philosophy that guides our internal conduct as well as our external relations with our customers, partners, shareholders and other stakeholders.



What we do, what we say, and how we behave determines how our customers see us. Our behaviour is the practical manifestation of our brand and reflects our values.

Goals and strategic initiatives

What Icelandair Group needs to do in order to survive in its competitive landscape is dictated by financial objectives which are universal and apply in all business operations. These objectives however, do not in themselves suggest business strategies, nor do they provide strategic direction. Through continuous strategic development, Icelandair Group seeks to continue to sustainably grow its profitable operations.

We evaluate our effort by comparison with clear-cut short-term and longer-term financial and operational goals that we translate into our EBITDA projection, which is published quarterly.

Goals

Strategic initiatives



We believe that one of our principal strengths lies in our employees. Our operations require a wide range of knowledge and specialised skills in aviation, hospitality, international marketing, finance and management. For this reason we are committed to making Icelandair Group an attractive workplace for our employees. Our success is reflected in the fact that on average our employees have been with the Company for 10 years.

Every day we strive to meet the needs of our customers in business and tourism. Icelandair Group is proud of its role in the Icelandic community and continues to seek new opportunities to strengthen its business.

That is our job around the clock, all year round, all over the world. ■

03

Lone Peak rears his bust to the beautiful sky,

...

And though the cold blasts ever beat without ruth
On his brow, in the strife he engages,
Unconquered he stands, as if courage and truth
Were carved from the rock of the ages.

Lone Peak (1899)





Corporate Governance

AUDIT COMMITTEE:

Katrín Olga Jóhannesdóttir,
Chairman

Ásthildur Otharsdóttir

Magnús Magnússon

COMPENSATION COMMITTEE:

Sigurdur Helgason,
Chairman

Úlfar Steindórsson

The Framework

The Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers, along with the Company's Articles of Association, and Rules for Issuers of Securities listed on the NASDAQ OMX Iceland, make up the framework for Icelandair Group's Corporate Governance practices. The Company's Articles of Association are accessible on the Company's website and the Guidelines and Rules for Issuers can be accessed on the NASDAQ OMX Iceland website.

The Company complies in all main respects with the rules cited above. However, the Company does not have a Nomination Committee, as the Board of Directors has not seen any need for such a committee. No government organisation has found the Company to be in breach of any rule or regulation regarding corporate governance.

In 2013 the Iceland Chamber of Commerce, the Confederation for Icelandic Employers and Nasdaq OMX Iceland hf. recognised the Company as "Exemplary in corporate governance". The aim of the award is to enhance the credibility and transparency of Icelandic companies' corporate governance with respect to shareholders and other stakeholders.

Internal Audit and Risk Management

The Group's Audit Committee oversees the manner in which management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The committee is entrusted with overseeing the Group's

consolidated accounts. The committee is also responsible for evaluation of the independence and eligibility of both the Company's auditor and auditing firm and for submitting recommendations to the Board of Directors regarding the selection of the Company's auditor. The Audit Committee held nine meetings in 2015.

Values, Code of Ethics and Corporate Responsibility

The Company's values are:

WE CARE for our customers, employees, environment and shareholders;

WE THINK CLIENTS through consistency, reliability, clear product alternatives and friendly service;

WE DRIVE RESULTS via teamwork, shared information and values, accountability and profitability.

On 25 May 2009 the Board of Directors approved a Code of Ethics, which was subsequently amended on 5 January 2011. The Code of Ethics is accessible to all Company employees through the Company's intranet, MyWork.

Compensation Committee

The purpose of the Compensation Committee is to prevent the Company's management from being placed in control of their own remuneration and to ensure that management remuneration is structured so as to serve the long-term interests of shareholders. The main tasks of the Compensation Committee are policy making with respect to management's performance and related bonuses, including stock options. The Committee conducts evaluations of management remuneration and monitors management's acquisition of stock in the Company. The Compensation Committee meets on average four times a year.



The Board of Directors



■ SIGURÐUR HELGASON, CHAIRMAN

Sigurður Helgason was President & CEO of Flugleidir/Icelandair 1985–2005. He was Director Cash Management 1974–1980, Senior Vice-President Finance 1980–1983, General Manager The Americas 1983–1985 at Flugleidir/Icelandair. He was a member of the IATA Board of Governors 2004/2005. He was a Member of the Board of Directors at Finnair 2007–2012. He was Chairman of the Board of The Icelandic International Development Agency 2005–2008. He has been Chairman of the Icelandair Special Children Travel Fund since 2005. He has served on various boards of Icelandic business enterprises since 1974. He graduated with an MBA degree from the University of North Carolina, Chapel Hill, USA, in 1973 and completed a Cand. Oecon. degree at the University of Iceland in 1971. He joined the Board on 6 August 2009.



■ ÚLFAR STEINDÓRSSON, DEPUTY CHAIRMAN

Úlfar Steindórrsson was born in 1956 and is CEO and Chairman of Toyota in Iceland ehf. and JÚ ehf. He was CEO of Primex ehf. in Siglufjörður from 2002–2004, and CEO of the New Business Venture Fund from 1999–2002. Úlfar is Chairman of the Board of Eignarhaldsfélagið Bifreiðar ehf., Bifreiðainnflutningur ehf., Bílaútleigan ehf., Okkar bílaleiga ehf. and TK bílar ehf. He is a Board member of Toyota á Íslandi ehf., Króksslóð ehf., TMH Iceland ehf., AB 257 ehf., UK fjárfestingar ehf., Johan Rönning hf., S. Guðjónsson ehf., Skorri ehf., My Car ehf. and UK fjárfestingar ehf. Úlfar holds a Cand. Oecon degree from the University of Iceland and an MBA from Virginia Commonwealth University. He joined the Board on 15 September 2010.



■ ÁSTHILDUR M. OTHARSDÓTTIR, BOARD MEMBER

Ásthildur M. Otharsdóttir was born in 1968 and is an independent management consultant with prior business experience as Global Director of Treasury and Corporate Development at Össur hf., Senior Account Manager at Kaupthing Bank hf. and Management Consultant at Accenture in Copenhagen. She is the Chairman of the Board of Directors of Marel hf. and Frumtak 2 Venture Fund. Ásthildur is a member of the Board of Directors of Marorka ehf., the Research Centre for Business Ethics at the University of Iceland and the Court of Arbitration of the Icelandic Chamber of Commerce. Ásthildur has an MBA degree from the Rotterdam School of Management, Erasmus University, and a Cand. Oecon degree from the University of Iceland. She joined the Board on 23 March 2012.



■ KATRÍN OLGA JÓHANNESDÓTTIR, BOARD MEMBER

Katrín Olga Jóhannesdóttir was born in 1962 and is the former Chief Strategy Officer of Skipti hf. and the current Chairman of the Board of Já hf., where she is a shareholder. Before that she was VP for sales and marketing and VP for residential markets at Síminn hf. Prior to that she held a position as the Managing Director of Navision Iceland and was a management consultant at VSO. Katrín Olga currently serves on the boards of directors of Ölgerðin hf. and Njála ehf., having previously served on the boards of the Central Bank of Iceland, Sirius IT and SkjáMiðlar. She was elected Chairman of the Iceland Chamber of Commerce in February 2016. She holds a Cand. Oecon degree from the University of Iceland and an M.Sc. in Business Economics from Odense University. She joined the Board on 6 August 2009.



■ MAGNÚS MAGNÚSSON BOARD MEMBER

Magnús Magnússon was born in 1965 and been employed as a division manager at LBI hf. since early 2009, having previously worked for Búnaðarbankinn and the financing company Lýsing hf. following a period of self-employment from 2003 to year-end 2008. Magnús currently serves on the boards of directors of Lýsi hf. and the manufacturing and contracting company Loftorka in Borgarnes, as well as several subsidiaries of LBI hf. Magnús holds a degree in business economics from the University of Iceland and a Masters Degree in international business from Norges Handelshøyskole. Magnús has been a reserve member of Icelandair Group's Board of Directors from 2009–2014 and a full member of the Board since 1 August 2014.

The Board of Directors, continued:

The Company's Board of Directors exercises the supreme authority in the Company's affairs between shareholders' meetings, and is entrusted with the task of ensuring that the organisation and activities of the Company's operation are at all times in correct and proper order.

The Board of Directors is instructed in the Company's Articles of Association to appoint a President and CEO for the Company and decide on the terms of his or her employment. The Board of Directors and President and CEO are responsible for the management of the Company.

The Company's Board of Directors must at all times ensure adequate supervision of the Company's accounts and secure safeguarding of its assets and shall adopt working procedures in compliance with the Companies Act. Only the Board of Directors may assign powers of procurement on behalf of the Company. The signatures of the majority of the members of the Board are required to bind the Company. The President and CEO has charge of the day-to-day operation of the Company and is required in his work to observe the policy and instructions set out by the Company's Board of Directors. Day-to-day operation does not include measures which are unusual or extraordinary. Such measures can only be taken by the President and CEO with the specific authorisation of the Board of Directors, unless it is impossible to await the decision of the Board without seriously disadvantaging the operation of the Company. In such instances the President and CEO is required to consult with the Chairman of the Board, if possible, after which the Board of Directors must immediately be notified of the measures. The President and CEO shall ensure that the accounts and finances of the Company conform to the law and accepted practices and that all assets belonging to the Company are securely

safeguarded. The President and CEO is required to provide the members of the Board of Directors and Company auditors with any information pertaining to the operation of the Company which they may request, as required by law.

The Company's Board of Directors consists of five members elected at the annual general meeting for a term of one year. Those who intend to stand for election to the Board of Directors must inform the Board in writing of their intention at least five days before the annual general meeting, or extraordinary shareholders' meeting at which elections are scheduled. Only those who have informed the Board of their candidacy are eligible.

The Board of Directors elects a Chairman and Deputy Chairman from its members and otherwise allocates its duties among its members as needed. The Chairman calls Board meetings. A meeting must also be held if requested by a member of the Board of Directors or the President and CEO. Meetings of the Board are valid if attended by a majority of its members. However, important decisions shall not be taken unless all members of the Board have had an opportunity to discuss the matter, if possible. The outcome of issues is decided by force of vote, and in the event of an equality of votes a motion is regarded as rejected. The President and CEO attends meetings of the Board of Directors, even if he or she is not a member of the Board, and has the right to participate in discussions and submit proposals unless otherwise decided by the Board in individual cases. A book of minutes is kept of proceedings at meetings and must be signed by participants in the meeting. A Board member who disagrees with a decision made by the Board of Directors is entitled to have his or her dissenting opinion entered in the book of minutes. The same applies to the President and

CEO. The Chairman is responsible for the Board's relations with shareholders and shall inform the Board of views expressed by shareholders.

On 12 September 2007 the Board of Directors approved Rules on Working Procedures for the Board of Directors, which were last amended on 8 February 2016. The Rules on Working Procedures are accessible to the Board of Directors and management through the Board's intranet. In accordance with article 14 of the Rules on Working Procedures the Board of Directors must annually evaluate its own work, number of members, composition and practices, and must also evaluate the performance of the President and CEO and others responsible for the day-to-day management of the Company and its development. The annual performance assessment is intended to improve working methods and increase the efficiency of the Board. The assessment includes evaluation of the strengths and weaknesses of the Board's work and practices and takes into consideration work components where the Board believes there is room for improvement.

The Board of Directors elects the members of two sub-committees: the Compensation Committee and the Audit Committee. The sub-committees are subject to the Rules on Working Procedures. The Board of Directors met eighteen times over the year with full participation at almost all meetings. All the members of the Board of Directors are independent of the Company with the exception of Ásthildur Margrét Otharsdóttir. All Board members were independent of the Company's major shareholders in 2015. ■

Executive Committee

■ BJÖRGÓLFUR JÓHANNSSON

PRESIDENT & CEO

Björgólfur Jóhannsson was born in 1955 and before joining Icelandair Group he was CEO of Icelandic Group, an international seafood company, from March 2006. Between 1992–1996 he was CFO of UA in Akureyri. He became CEO of Síldarvinnslan, a fisheries and fish processing enterprise, in 1999 and served as Director of Innovation and Development at the fisheries company Samherji from 1996, having worked as an accountant for two auditing firms from 1980. Björgólfur served as Chairman of the Board of the Federation of Icelandic Fishing Vessel Owners from 2003–2008. He was elected Chairman of the Confederation of Icelandic Employers in March 2013. He graduated with a degree in Business Administration from the University of Iceland in 1983 and qualified as a chartered accountant in 1985.



■ BOGI NILS BOGASON

CFO

Bogi Nils Bogason was born in 1969 and he began his career with Icelandair Group in October 2008. He was CFO of the investment firm Askar Capital from January 2007 until he joined Icelandair Group, and CFO of the international seafood company Icelandic Group, from 2004–2006. Bogi Nils was an auditor and partner at KPMG in Iceland in 1993–2004. He holds a Cand. Oecon. degree in Business from the University of Iceland and qualified as a chartered accountant in 1998.



■ BIRKIR HÓLM GUÐNASON

CEO, ICELANDAIR

Birkir Hólm Guðnason was born in 1974 and he was appointed CEO of Icelandair in May 2008, after serving with the company from 2000. Earlier posts at Icelandair include Sales Manager in Iceland 2000–2002, Sales & Marketing Manager in North America 2002–2005, General Manager for Central Europe, situated in Frankfurt, 2005–2006, and General Manager for Scandinavia, situated in Copenhagen, from 2006. Birkir studied in Aalborg, Denmark, 1995–2000 and holds a B.Sc. degree in Business Economics and an MBA degree in International Business Economics from Aalborg University. Birkir is the chairman of the board of the American Icelandic Chamber of Commerce. He is a board member of the Chamber of Commerce and Íslandsstofa (Promote Iceland).



■ MAGNEA ÞÓREY HJÁLMAUSDÓTTIR

MANAGING DIRECTOR, ICELANDAIR HOTELS

Magnea Þórey Hjálmausdóttir was born in 1967 and she was appointed Managing Director of Icelandair Hotels in July 2005, having joined Icelandair Hotels in 1994. Magnea has worked in the hotel industry since 1991 and held management positions at hotels in Iceland, Switzerland and Japan. She completed her MBA at the University of Surrey, UK, in 2003.



Shareholder Information

Icelandair Group's total shareholder return in 2015 was 67.1%, with the Group's share price increasing by 65.4%. Shareholders were paid a dividend amounting to 0.36 US cent per share. At year-end Icelandair Group market capitalisation amounted to 1.4 billion USD.

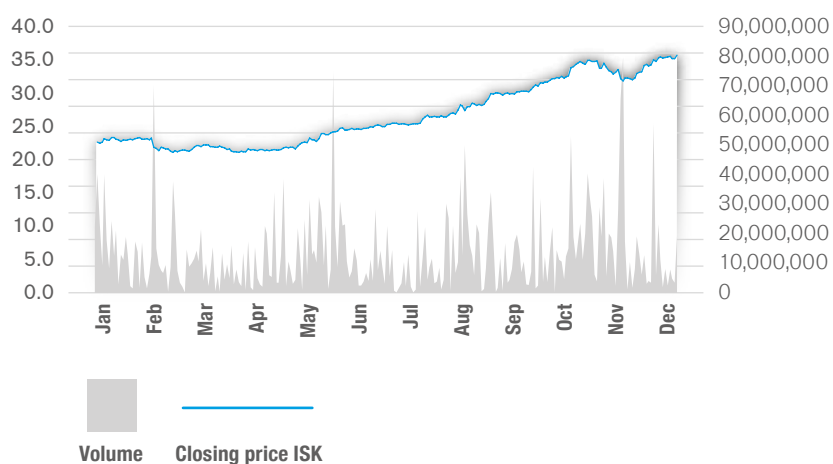
Share capital

Icelandair Group's share capital as at 31 December 2015 amounted to ISK 5,000 million in nominal value. All shares are of the same class and hold equal rights; each share has a nominal value of ISK 1 and carries one vote. Shareholders are entitled to dividends as decided from time to time at the Company's Annual General Meeting. The Company held own shares in the nominal amount of ISK 25 million at year-end 2015 (2014: ISK 25 million). The Group's shares are listed under the symbol ICEAIR on the NASDAQ OMX Iceland.

Share performance

Over the year Icelandair Group's share price rose from ISK 21.40 to ISK 35.40, an increase of 65.4%. The highest closing price in 2015 was ISK 35.40 per share, the lowest closing price was ISK 20.95 per share and the average closing price over the year was ISK 26.41 per share.

Icelandair Group share price and trading volume | 2015 per month



| All amounts in ISK | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------------------------|--------|--------|--------|---------|---------|
| Market capitalisation, million | 25,150 | 41,100 | 91,000 | 107,000 | 177,000 |
| Share price at year-end | 5.03 | 8.22 | 18.20 | 21.40 | 35.40 |
| Highest closing price | 5.84 | 8.24 | 18.20 | 21.40 | 35.40 |
| Lowest closing price | 3.09 | 4.83 | 8.22 | 16.45 | 20.95 |
| No. of issued shares, million | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| No. of outstanding shares, million | 4,975 | 4,975 | 4,975 | 4,975 | 4,975 |

Share liquidity

Icelandair Group has entered into a market making agreement with Landsbanki hf. and Islandsbanki. The agreement is of unspecified duration and may be terminated with one month's notice. The purpose of the agreement is to improve liquidity and to enhance transparent price formation for the Company's shares on NASDAQ OMX Iceland.

Shares in Icelandair Group were traded 3,993 times in 2015 for a total market value of ISK 87.5 billion (ISK 71.9 billion in 2014). The volume of trading in the shares averaged ISK 353.0 million per day, and the average number of shares traded was 13.2 million. At the end of 2015 Icelandair Group's market capitalisation had reached ISK 177 billion, which corresponds USD 1.4 billion.

Key ratios

Icelandair Group reported net profit of USD 111.2 million in 2015, corresponding to 2.2 US cents per share. The Company's total equity at year-end was USD 456.5 million. The P/E ratio at the same time was 12.1 and the P/B ratio was 3.1.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|----------------------------------|-------|-------|-------|-------|-------|
| Earnings per share in US cents | 0.7 | 0.9 | 1.1 | 1.3 | 2.2 |
| Intrinsic value of share capital | 6.5 | 7.3 | 8.5 | 9.0 | 11.2 |
| P/E ratio | 5.6 | 7.2 | 13.9 | 12.6 | 12.1 |
| P/B ratio | 0.8 | 1.1 | 2.1 | 2.4 | 3.1 |
| Number of shareholders | 1,269 | 1,458 | 1,833 | 2,099 | 2,387 |

Shareholders

At the end of 2015 the number of shareholders was 2,387, as compared to 2,099 at the beginning of the year. 0.5% of the total shareholder base held 64.6% of the shares in the Company.

| Number of shares | Shareholders | % | Shares | % |
|------------------------|--------------|---------------|----------------------|---------------|
| 1-100,000 | 1,670 | 70.0% | 41,259,333 | 0.8% |
| 100,001-1,000,000 | 550 | 23.0% | 192,594,609 | 3.9% |
| 1,000,001-10,000,000 | 120 | 5.0% | 328,267,669 | 6.6% |
| 10,000,001-100,000,000 | 34 | 1.4% | 1,208,007,701 | 24.2% |
| 100,000,001 + | 13 | 0.5% | 3,229,870,688 | 64.6% |
| Total | 2,387 | 100.0% | 5,000,000,000 | 100.0% |

Financial Calendar

Q1 2016 | 28.04 2016

Q2 2016 | 28.07 2016

Q3 2016 | 28.10 2016

Q4 2016 | Week 06 2017

AGM | Week 11 2017

Shareholders Information, continued:

20 Largest shareholders 31 December 2015:

| Name | No. Shares | Shares in % |
|--|----------------------|---------------|
| Lífeyrissjóður verslunarmanna | 729,136,116 | 14.58 |
| Stefnir – ÍS 15 | 477,917,852 | 9.56 |
| Lífeyrissj.starfsm.rík. A-deild | 322,000,000 | 6.44 |
| Gildi – Lífeyrissjóður | 316,706,441 | 6.33 |
| Stefnir – ÍS 5 | 265,874,784 | 5.32 |
| Stafir Lífeyrissjóður | 181,287,277 | 3.63 |
| Stapi Lífeyrissjóður | 167,447,000 | 3.35 |
| A.C.S safnreikningur I | 141,898,608 | 2.84 |
| Landsbréf – Úrvalsbréf | 141,262,421 | 2.83 |
| Sameinaði Lífeyrissjóðurinn | 140,745,354 | 2.81 |
| IS Hlutabréfasjóðurinn | 127,961,555 | 2.56 |
| Lífeyrissj.starfsm.rík. B-deild | 117,300,000 | 2.35 |
| Lífeyrissjóður starfsmanna sveitarfélaga | 100,333,280 | 2.01 |
| Söfnunarsjóður Lífeyrisréttinda | 97,423,131 | 1.95 |
| Kvika banki hf. | 92,569,340 | 1.85 |
| Landsbankinn hf. | 91,519,899 | 1.83 |
| Íslandsbanki hf. | 89,625,667 | 1.79 |
| Landsbréf Öndvegisbréf | 89,117,646 | 1.78 |
| Virðing safnreikningur | 74,634,000 | 1.49 |
| Sjóvá-Almennar tryggingar hf. | 55,708,319 | 1.11 |
| Other | 1,179,531,310 | 23.59 |
| Total | 5,000,000,000 | 100.00 |

Dividend and dividend policy

Icelandair Group's goal is to pay 20-40% of each year's net profit in dividends. Final annual dividend payments will be based on the financial position of the Company, capital expenditure requirement and market conditions. Icelandair Group's Board of Directors proposes that dividends for the year 2015 totalling ISK 3.5 billion, or USD 26.9 million, should be paid out to shareholders, an amount representing 24% of the net profit for the year. Based on Icelandair Group's share price as at 31 December 2015, ISK 35.4, the dividend yield corresponds to 2.0%.

Investor relations

Icelandair Group's objective is to ensure that timely and correct information about the Company is made available to all stakeholders simultaneously, regularly and consistently. All press releases, financial disclosures and Company announcements are published through GlobeNewswire, a NASDAQ OMX company. Icelandair Group strives continuously to improve the quality, transparency and consistency of its information disclosures.

The Investors' website at www.icelandairgroup.com/Investors/ provides extensive news and background information on Icelandair Group for both analysts and investors. The site contains archived regulatory announcements, financial reports and presentations, shareholder information, share price information, dividend policy and the financial calendar. ■



04

Though you travelled far, trod
and traversed every land,
your mind and heart bear
still your homeland's mould.

The Icелander's Day Address (1904)





Performance in 2015

Icelandair Group performed well in 2015, with results exceeding management projections from the beginning of the year. Profit after taxes amounted to USD 111.2 million, up by 67% between years. The good results derive from most of the Group's operations, but most prominent was the profitable increase in capacity on international flights.

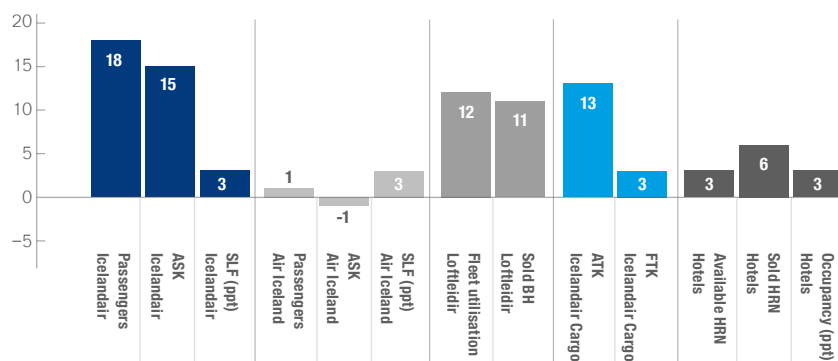
Transport figures

Passengers on international flights were 3.1 million in 2015, up by 18%. The Company has never before transported so many passengers in a single year. The passenger load factor over the year in international flight services was 83.1%, up by 2.8 percentage points, with a new record set in every month of the year. The increase in passenger numbers was greatest in the market between Europe and North America via Iceland, at 20%. This is also the Company's largest market, accounting for 49% of the total number of passengers in 2015.

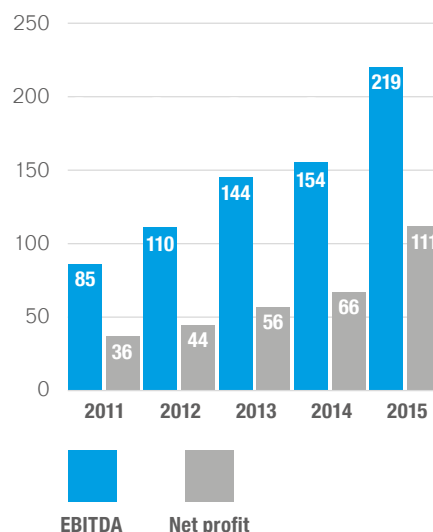
Passengers on domestic flights and flights to Greenland were 296 thousand, as compared to 293 thousand in 2014, which corresponds to an increase of 1%. The passenger load factor for the year in regional flight services was 74.4%, up by 2.6 percentage points. Fleet utilisation in charter projects improved by 11.5 percentage points in 2015, to 99.0%. The number of sold block hours on charter flights increased by 11% between 2015 and 2014. The number of sold hotel nights increased by 6% at the same time that the number of offered hotel nights increased by 3%. The hotel room utilisation was 78.2% in 2015, as compared to 75.6% in 2014.

| | 2015 | 2014 | Change |
|---|----------|---------|----------|
| INTERNATIONAL FLIGHTS | | | |
| Number of passengers ('000) | 3,072.5 | 2,602.9 | 18% |
| Load factor (%) | 83.1 | 80.4 | 2.8 ppt |
| Available seat kilometres (ASK'000,000) | 11,083.7 | 9,673.3 | 15% |
| REGIONAL AND GREENLAND FLIGHTS | | | |
| Number of passengers ('000) | 296.2 | 292.7 | 1% |
| Load factor (%) | 74.4 | 71.8 | 2.6 ppt |
| Available seat kilometres (ASK'000,000) | 145.0 | 146.9 | -1% |
| CHARTER FLIGHTS | | | |
| Fleet utilisation (%) | 99.0 | 87.5 | 11.5 ppt |
| Sold block hours | 23,263 | 21,044 | 11% |
| CARGO | | | |
| Available tonne kilometres (ATK'000) | 242,252 | 215,012 | 13% |
| Freight tonne kilometres (FTK'000) | 100,497 | 97,935 | 3% |
| HOTELS | | | |
| Available hotel room nights | 325,941 | 316,773 | 3% |
| Sold hotel room nights | 254,842 | 239,522 | 6% |
| Occupancy (%) | 78.2 | 75.6 | 2.6 ppt |

Traffic figures | YOY change in %



EBITDA and net profit in USD million | 2011–2015



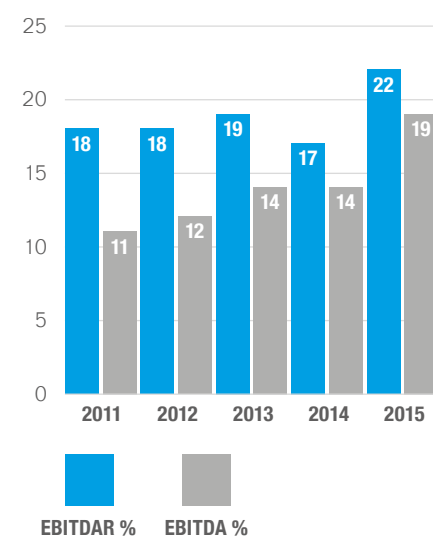
Earnings

Net profit increased by 67%

The Company’s performance over the year was good and exceeded management anticipations. Net profit amounted to USD 111.2 million, up by USD 44.7 million, or 67%. EBITDA amounted to USD 219.0 million, up by 42% between years. The favourable performance over the year can be attributed to a number of interacting factors. These include increased demand in the North Atlantic market – which was met by increased capacity – low fuel prices, and good results from charter and cargo operations.

| USD thousand | 2015 | 2014 | Change |
|---------------------|---------|---------|---------|
| EBITDAR | 254,026 | 193,410 | 60,616 |
| EBITDA | 218,982 | 154,338 | 64,644 |
| EBIT | 135,156 | 79,009 | 56,147 |
| EBT | 140,223 | 79,908 | 60,315 |
| Profit for the year | 111,223 | 66,499 | 44,724 |
| EBITDAR % | 22.3% | 17.4% | 4.9 ppt |
| EBITDA % | 19.2% | 13.9% | 5.4 ppt |

EBITDAR % and EBITDA % | 2011–2015



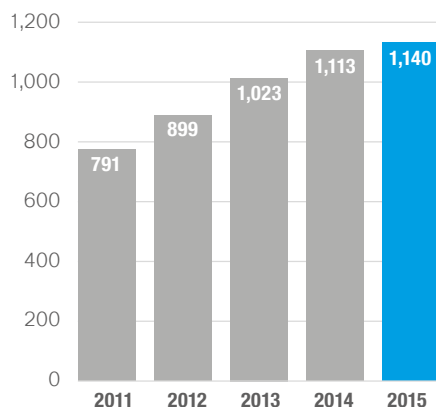
Operating income

Total operating income amounted to USD 1,139.7 million in 2015, increasing by 2% over the year. The increase calculated at a fixed exchange rate was 12%.

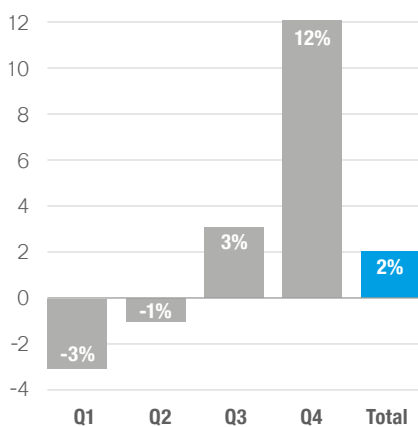
| USD thousand | 2015 | 2014 | Change | % Change | % of rev. '15 |
|----------------------------|------------------|------------------|---------------|-----------|---------------|
| Transport revenue: | 848,868 | 811,002 | 37,866 | 5% | 74% |
| Passengers | 806,555 | 766,624 | 39,931 | 5% | 71% |
| Cargo and mail | 42,313 | 44,378 | -2,065 | -5% | 4% |
| Aircraft and aircrew lease | 83,356 | 74,754 | 8,602 | 12% | 7% |
| Other operating revenue | 207,475 | 227,541 | -20,066 | -9% | 18% |
| Total | 1,139,699 | 1,113,297 | 26,402 | 2% | 100% |

Performance in 2015, continued:

Total income in USD million | 2011–2015



Change in total income per quarter | 2015 vs 2014

**Passenger revenue up by 5%**

Transport revenue totalled USD 848.9 million, up by 5%. Transport revenue counts for 74% of Icelandair Group's total income. Of this figure, passenger revenues amounted to USD 806.6 million, increasing by 5%. The increase in passenger revenue was greatest in the market between Europe and North America via Iceland, but passenger revenue also increased significantly in the tourist market to Iceland.

Other revenue down between years

Other revenue amounted to USD 207.5 million, down by USD 20.1 million from 2014. There are two principal reasons for the reduction: Sales of merchandise in hotels, airports and aircraft fell, as the Company discontinued its restaurant services in Keflavik International Airport in early 2015. Income from maintenance services was also lower.

OPERATING EXPENSES

Operating expenses amounted to USD 920.7 million in 2015, as compared to USD 959.0 million in 2014, a decrease of 4%.

| USD thousand | 2015 | 2014 | Change | % Change | % of exp. '15 |
|--|----------------|----------------|----------------|------------|---------------|
| Salaries and other personnel expenses | 280,244 | 273,161 | 7,083 | 3% | 30% |
| Aircraft fuel | 229,283 | 271,871 | -42,588 | -16% | 25% |
| Aircraft and aircrew lease | 22,896 | 26,653 | -3,757 | -14% | 3% |
| Aircraft handling, landing and communication | 85,662 | 82,888 | 2,774 | 3% | 9% |
| Aircraft maintenance expenses | 68,808 | 75,884 | -7,076 | -9% | 8% |
| Other operating expenses | 233,824 | 228,502 | 5,322 | 2% | 25% |
| Total | 920,717 | 958,959 | -38,242 | -4% | 100% |

Salaries and personnel expenses up by 3%

Salaries and other personnel expenses amounted to USD 280.2 million, increasing by USD 7.1 million. The reason is primarily the Company's increased scope of operation and the contractual salary increases between years. The average number of full-time employees was 3,384 in 2015, as compared to 3,109 in 2014.

Fuel costs down by 16%

Fuel costs fell by USD 42.6 million between years, amounting to a total of USD 229.3 million. The deviation was the result of the fall in world market price of fuel. The average world price of fuel in 2015 was USD 529 per ton, as compared to USD 909 per ton in 2014. Because of the Company's fuel hedging measures, the benefit of the falling world market price is not fully reflected in this financial statement. The Company's reporting price in 2015, taking hedging into account, was on average USD 685 per ton, 29% above the world market price.

Aircraft maintenance expenses down in 2015

Maintenance expenses were USD 7.1 million lower in 2015 compared to 2014. The reason is expense relating to maintenance work for third party in 2014. Taking this into account the maintenance expenses were similar in 2015 as it was in 2014.

Other operating expenses was USD 233.8 million

Other operating expenses rose by USD 5.3 million, or 2%. The main explanation is the Company's extended scope of business. Within other operating expenses, advertising, booking fees and commission cost was USD 72.8 million, as compared to USD 69.1 million in the preceding year, and tourism expenses increased in line with increased revenue from tourism. Total tourism expenses amounted to USD 52.3 million, increasing by USD 1.8 million.

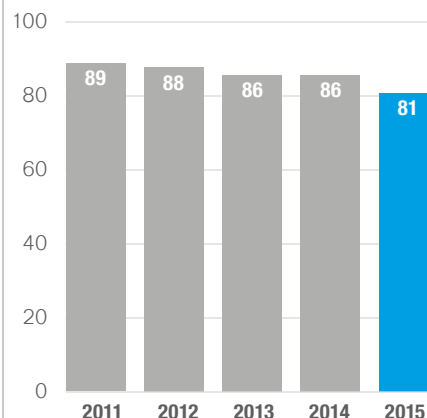
Depreciation and amortisation amounted to USD 83.8 million

Total depreciation of operating assets amounted to USD 80.1 million in 2015, as compared to USD 71.6 million in 2014. Amortisation of intangible assets amounted to USD 3.7 million.

Net currency gain USD 9.9 million

Net finance income was USD 4.6 million in 2015, as compared to USD 1.1 million in 2014. The biggest contributing factor was the net currency exchange gain, which amounted to USD 9.9 million in 2015, as compared to USD 4.8 million in 2014. Interest income amounted to USD 2.9 million, up from USD 2.2 million. Interest cost rose by USD 2.1 million, or 35%, and amounted to USD 8.2 million. ■

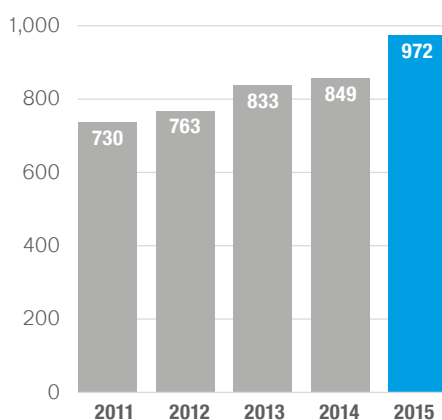
Operating expenses as % of total income | 2011–2015



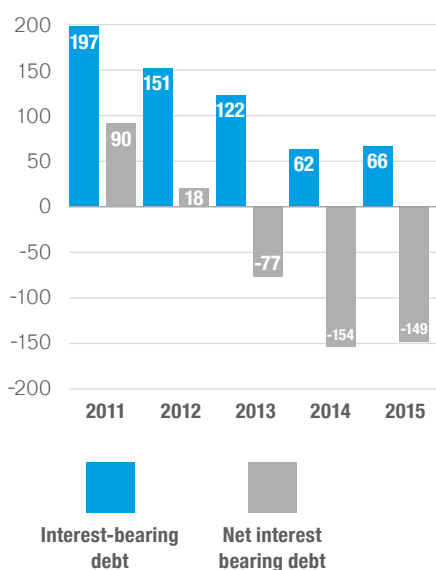
Financial Position

Icelandair Group's balance sheet grew stronger over 2015, with the year-end equity ratio at 47%. Capital expenditures increased from previous year and totalled USD 210.4 million. Assets increased by 14%, to a total of USD 972.0 million at year-end. Cash and short term investments in excess of interest-bearing liabilities amounted to USD 148.6 million at year end.

Total assets in USD million | 2011–2015



Interest-bearing and net interest bearing debt in USD million | 2011–2015



ASSETS

Capital expenditure leads to increase in non-current assets

The Group's total assets increased by USD 122.8 million, to USD 972.0 as of 31 December 2015. Non-current assets increased by USD 123.4 million, to USD 637.6 million, and current assets decreased by USD 0.6 million, to USD 334.4 million.

Within non-current assets, operating assets increased by USD 99.7 million. The increase is largely a result of investments in aircraft and aircraft spare parts. To support the growth of the Company, eight aircraft were added to the balance sheet: four Boeing 757 200 aircraft, one Boeing 767 300 aircraft and three Bombardier Q400 aircraft. Intangible assets and goodwill totalled USD 172.7 million, mainly comprising goodwill in the amount of USD 136.5 million. Other non-current assets amounted to USD 45.8 million at year-end, increasing by USD 26.9 million from the preceding year. Of this figure, investments in associates totalled 18.2 million and prepayments on aircraft purchases amounted to USD 22.3 million.

Within current assets, trade and other receivables increased by USD 4.6 million and totalled USD 101.1 million at year-end 2015. Cash and short term investments decreased by USD 1.5 million amounting to USD 214.1 million at year-end 2015.

EQUITY AND LIABILITIES

Equity ratio 47%

Equity increased by 25% and amounted to USD 456.5 million as at 31 December 2015. The largest part of the increase is due to the positive comprehensive income of USD 109.4 million. Dividend payments amounted to USD 17.9 million, which is equivalent to 0.36 US cent per share. The equity ratio was 47%, as compared to 43% in 2014. Share capital at year-end amounted to ISK 5,000 million in nominal value. The Company held own shares in the nominal amount of ISK 25 million at year-end 2015, unchanged from 2014.

| USD thousand | 2011 | 2012 | 2013 | 2014 | 2015 |
|----------------------------|---------|---------|---------|---------|---------|
| Total comprehensive income | 32,093 | 38,854 | 61,910 | 37,967 | 109,419 |
| Profit for the year | 36,310 | 44,275 | 56,418 | 66,499 | 111,223 |
| Equity | 263,385 | 295,932 | 346,082 | 365,055 | 456,531 |
| Equity ratio | 36% | 39% | 42% | 43% | 47% |

Interest-bearing liabilities amounted to USD 65.5 million

Non-current liabilities amounted to USD 99.5 million at year-end 2015. Of that figure, loans and borrowings amounted to USD 55.4 million, up from USD 49.7 million. Current liabilities totalled USD 415.9 million. Under current liabilities, trade and other payables amounted to USD 219.7 million, increasing slightly from USD 214.3 million. Deferred income increased by USD 11.2 million, to USD 186.1 million. Current loans and borrowings decreased between years and amounted to USD 10.1 million at year-end, as compared to USD 12.3 million.

Interest-bearing debt amounted to USD 65.5 million, as compared to USD 61.9 million at year-end 2014. New long-term debts in 2015 totalled USD 23.7 million. Payments on long-term debts amounted to USD 20.0 million over the year.

Calculation of net interest-bearing debt:

| USD thousand | 31.12.2015 | 31.12.2014 | Change |
|----------------------------------|-----------------|-----------------|--------------|
| Loans and borrowings non-current | 55,387 | 49,671 | 5,716 |
| Loans and borrowings current | 10,143 | 12,263 | -2,120 |
| Short term investments | 19,533 | 30,879 | -11,346 |
| Cash and cash equivalents | 194,586 | 184,762 | 9,824 |
| Net interest-bearing debt | -148,589 | -153,707 | 5,118 |

CASH FLOW AND INVESTMENTS

| USD thousand | 2015 | 2014 | Change |
|--|----------------|----------------|--------------|
| Working capital from operations | 211,260 | 162,807 | 48,453 |
| Net cash from operating activities | 245,136 | 215,315 | 29,821 |
| Net cash used in investing activities | -219,942 | -130,156 | -89,786 |
| Net cash used in financing activities | -14,320 | -88,684 | 74,364 |
| Increase / decrease in cash and cash equivalents | 10,874 | -3,525 | 14,399 |
| Cash and cash equivalents at 31 December | 194,586 | 184,762 | 9,824 |

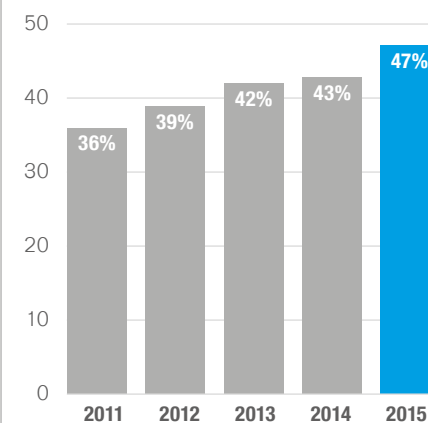
Cash generated by operating activities USD 245.1 million

Cash flow from operating activities increased by USD 29.8 million and came to USD 245.1 million. Net cash used in investing activities amounted to USD 219.9 million. Net cash used in financing activities amounted to USD 14.3 million. Dividend payments amounted to USD 17.9 million, and repayments of long-term borrowings amounted to USD 20.0 million. Proceeds from non-current borrowings were USD 23.7 million. Cash and cash equivalents at year-end amounted to USD 194.6 million, as compared to USD 184.8 million in 2014.

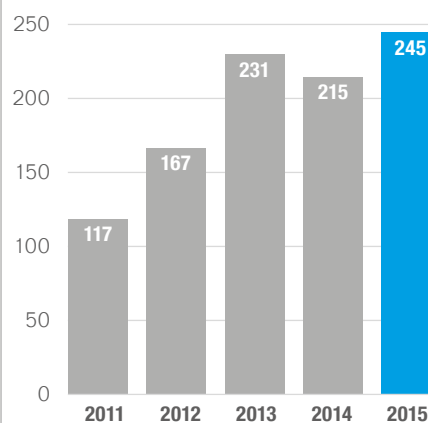
Total investments in 2015 USD 210.4 million

Investments in operating assets amounted to USD 182.6 million. Of this figure, investment in aircraft and aircraft components totalled USD 115.0 million, while investment in engine overhauls on own aircraft totalled USD 39.6 million over the year. Investments in long-term expenses amounted to USD 26.8 million, largely stemming from overhauls of leased engines. Investment in intangible assets amounted to USD 1.1 million.

Equity ratio | 2011–2015







Cash flow from operating activities in USD million | 2011–2015



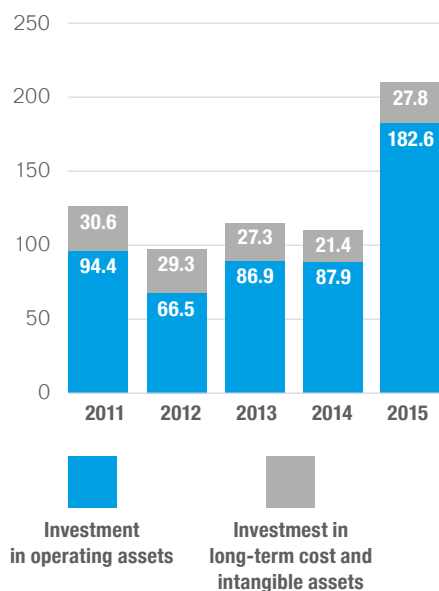
Financial Position, continued:

Fleet

At the end of 2015 Icelandair Group's fleet comprised 43 aircraft 35 were owned by the Company and 8 were leased. The table below provides an overview of the Company's fleet:

| Aircraft type | ICELANDAIR  | ICELANDAIR CARGO  | LOFTLEIDIR ICELANDIC  | AIR ICELAND FLUGFELAG ISLANDS  |
|------------------|--|--|--|---|
| Boeing 757-200 | 20 | 2 | 4 | |
| Boeing 757-300 | 1 | | | |
| Boeing 767-300 | 2 | | 2 | |
| Boeing 737-700 | | | 1 | |
| Boeing 737-800 | | | 2 | |
| Fokker 50 | | | | 4 |
| Bombardier Q-200 | | | | 2 |
| Bombardier Q-400 | | | | 3 |
| Total | 23 | 2 | 9 | 9 |

Total investment in USD million | 2011-2015



In 2016 the Company will add two B767-300 wide-body aircraft seating 262 passengers to the Route Network. The high passenger load factor on many of the Company's routes year-round, in addition to limits on slot availability at some airports, made the introduction of larger aircraft a feasible option. The new aircraft have greater range than the B757-200 aircraft and their introduction will open up new market opportunities.

In 2015 the decision was made within the Company's regional flight operations to replace the entire fleet of five Fokker 50 aircraft with three Bombardier Q400 aircraft. Following the change, five aircraft will be in the service of the regional flight operations, three Q400s and two Q200s. The Fokker 50 aircraft will be sold, with the sale of one aircraft already finalised. The Q400 aircraft will seat 72-76 passengers, as compared to the 50-seat capacity of the Fokker 50 aircraft. The change will simplify and streamline the Company's regional operations, as the number of aircraft will be reduced and a degree of synergy will be achieved with the entire regional fleet being from the same manufacturer. With the change in the composition of the fleet the Company sees opportunities for expanding into new markets and providing improved services to the current domestic market, as the new aircraft are larger and their flight time is shorter.

The Company has an order of sixteen 737 MAX8 and 737 MAX9 aircraft, with an option to buy additional eight aircraft. The commitment resulting from the confirmed

| | Total 31.12.15 | Total 31.12.14 | Owned | Leased | Ch. in 2015 |
|--|-------------------|-------------------|-----------|----------|-------------|
| | 26 | 24 | 24 | 2 | 2 |
| | 1 | 1 | 1 | | 0 |
| | 4 | 2 | 1 | 3 | 2 |
| | 1 | 1 | | 1 | 0 |
| | 2 | 2 | | 2 | 0 |
| | 4 | 5 | 4 | | -1 |
| | 2 | 2 | 2 | | 0 |
| | 3 | 0 | 3 | | 3 |
| | 43 | 37 | 35 | 8 | 6 |

orders, according to Boeing's list prices at the date of the contract, amounted to USD 1.6 billion. The Company received acceptable discounts which due to confidentiality agreements cannot be disclosed.

Delivery of the first aircraft is scheduled for early 2018. The order is for nine 737 MAX8 aircraft, with a seating capacity of 153 passengers, and seven 737 MAX9 aircraft, with a seating capacity of 172 passengers. For comparison, the Boeing 757-200 aircraft used in the Company's international Route Network seats 183 passengers.

The Boeing 737 MAX aircraft are a new and improved version of the current Boeing 737. They will be fitted with new and more efficient engines, which will reduce fuel consumption by 20% per seat in comparison with the Boeing 757-200 aircraft currently used on the Company's international routes.

Boeing 757 aircraft will continue in use, as they have proven extremely well suited for the routes extending from Iceland to Europe and North America. The new aircraft will enlarge the fleet and improve both flexibility and the potential for further growth. They can fly to destinations in North America and Europe, opening new possibilities for increased frequency and an increased number of destinations, particularly in the wintertime, which will even out the seasonal fluctuations in the Company's operations. ■

Outlook

Icelandair Group has in recent years followed a clear strategy designed to ensure long-term growth. The aim has been sustainable organic growth which is geared to prevailing circumstances at any time. The strong equity position and underlying cash flow underpins the ability to undertake profitable investments and improve the competitiveness of the Company for the long term.

Capacity in the international Route Network increased by 24%

Prospects for the operation of the Route Network are favourable. The flight schedule for 2016 assumes a 24% increase in the number of available seat kilometres. The number of passengers carried is projected at 3.7 million, as compared to 3.1 million passengers in 2015. Flights will be offered to 43 destinations, increasing the previous number by four. The new destinations are Chicago in the U.S., Montreal in Canada, Aberdeen in Scotland and Orly Paris in France. However, the growth of the Route Network is mostly a result of increased frequencies to current destinations on both sides of the Atlantic. A total of 27 aircraft will be utilised in the Route Network in 2016, three more than in 2015. Two Boeing 767-300 wide-body aircraft will be added to the Company's fleet. The new aircraft will carry 262 passengers, while the Company's current Boeing 757-200 carry 183 passengers.

Further development of the second bank in Iceland

The international Route Network has been based primarily on the connecting hub at Keflavik Airport, with morning flights to European cities and afternoon flights to North America. In recent years the Company has created a second bank, with departures to North America shortly before noon and to Europe around midnight. Increased attention will be focused on the second bank in 2016, with the aim of supporting the Company's principal bank and easing the congestion at Keflavik Airport.

Passenger load factor expected to remain high in 2016

The passenger load factor in the international Route Network was good in 2015, with a new record set in every month of the year. The passenger load factor is expected to remain high in



Work is in progress on changing the fleet used in

the Company's regional airline operations, and in the first half of 2016 three Bombardier Q400 aircraft will be introduced, which marks the end of the Company's 50-year history of Fokker aircraft.

2016, although it is not expected to increase in every month, as in the case of the improvement between 2014 and 2015. The Company anticipates a decrease in average airfares over the year as a result of increased market capacity and lower fuel prices.

Eventful year ahead in regional airline operations

Work is in progress on changing the fleet used in the Company's regional airline operations, and in the first half of 2016 three Bombardier Q400 aircraft will be introduced, which marks the end of the Company's 50-year history of Fokker aircraft. To mark the occasion, the fleet will be given a new appearance. The five Fokker 50 aircraft that the Company has operated in recent years will be sold, with the sale of one aircraft already finalised. Next summer there are plans to introduce scheduled air services to a new

destination, Kangerlussuaq, the Company's fifth destination in Greenland. The introduction of the Bombardier Q400 aircraft will open new opportunities for growth, as concurrently with the domestic flights in Iceland the aircraft will be used for international flights to Aberdeen in cooperation with Icelandair.

Continued focus on utilising belly space

Plans for the Company's cargo operations assume increased imports and exports to and from Iceland over the year. Two cargo aircraft will carry freight on scheduled routes, while the holds of passenger aircraft on international routes will continue to be used for freight. Increased emphasis has been placed on freight in passenger aircraft holds, which contributes to the Group's efficiency and profitability. The introduction of two Boeing 767-300 wide-body aircraft in the Company's fleet will support this trend and at the same time open new opportunities.

The hotel operation continues to grow

Icelandair Group's hotel operations have expanded in recent years, and few large hotel projects are in progress. Canopy by Hilton, hotel of 115 rooms will be opened in Reykjavik City Centre in the early summer of 2016 in co-operation with the Hilton Hotel chain. There are also plans to open two high-quality hotels in the heart of Reykjavik in 2017-2018. One hotel will have 50 rooms and the other 160 rooms. Their opening is part of the Company's strategy of increasing its offering of high quality accommodation in Reykjavik. Work is also in progress on developing a hotel at Lake Mývatn in northern Iceland. The plan is to open a hotel with 40-50 rooms within two years, which represents the Company's strategy of strengthening winter tourism and spreading the flow of tourists to new

areas of the country.

Good opportunities in tourist related services in Iceland

For years the increase in numbers of tourists to Iceland has exceeded world averages. This trend is expected to continue in 2016. There are still extensive opportunities for the Company's expansion in tourism-related services, and work remains in progress on increasing the proportion of tourist traffic outside the peak season, in addition to increasing their distribution throughout the country in order to reduce the pressure on overloaded tourist spots.

EBITDA guidance for 2015 at USD 245–250 million

The EBITDA guidance for 2016 assumes an increase from USD 219.0 million in 2015 up to a range of USD 245–250 million, but currency exchange rates and fuel price trends can have a significant impact on the Company's performance. The forecast for the year assumes a 1.08 average exchange rate of the EUR against the USD. The world market price of fuel in December was approximately USD 385 per ton, which becomes the Company's purchase price for January, and approximately USD 314 per ton in January, which will then be the purchase price for February. The Company is assuming that the average purchase price will be USD 350 per ton in March - December. The low oil prices mean that a decrease in average air fares are likely to be seen in 2016 as hedging contracts unwind, which will help to stimulate demand over the year. ■



The flight schedule for 2016 assumes a 24% increase in the number of available seat kilometres. The number of passengers carried is projected at 3.7 million, as compared to 3.1 million passengers in 2015. Flights will be offered to 43 destinations, increasing the previous number by four.

Risk Management

Icelandair Group's objective is to manage and control risk exposures and keep them within acceptable limits, subject to optimised returns, by using derivatives and other available means. All risk management is carried out within guidelines set by the Board of Directors.

Various, macroeconomic, sector-specific, financial and enterprise-related risks can impact Icelandair Group's operations. The Board of Directors is responsible for defining policy measures to reduce exposure to financial and enterprise risk. These measures outline the parameters and framework which need to be considered when managing risk, especially risk arising from price volatility and liquidity fluctuations. An internal Risk Management Committee, chaired by the CEO, endeavours to reduce risk exposure to the maximum feasible extent within the Board's policy limits. The main policy objectives determine the methods to be used to reduce costs and disadvantages arising from any instability and uncertainty in the Company's operating environment. The policy is reviewed on a regular basis and modified when improvements are needed

Foreign currency risk

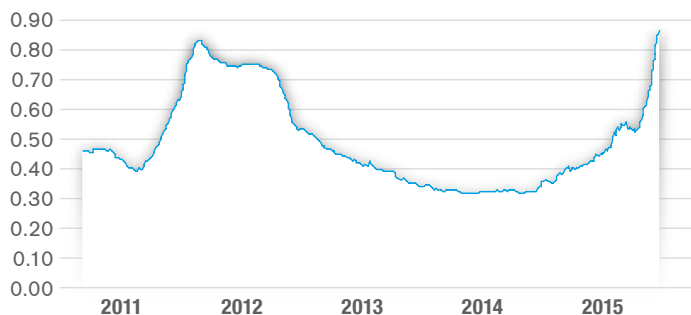
The Group seeks to reduce its foreign exchange exposure arising from its business dealings in diverse currencies through a policy of matching receipts and payments in each individual currency to the extent possible. Any mismatch is dealt with using currency trades within the Group before turning to outside parties. Historically, the biggest currency mismatch has been a USD deficit, where the annual USD cash inflow falls short of the USD outflow, mainly due to investment, maintenance, fuel costs, and funding-related payments, which are to a large extent denominated in USD. This mismatch has been shrinking, however, in both relative and absolute terms due to USD revenue growth and lower fuel and funding costs. The gap is expected to shrink still further in 2016 due to lower fuel prices and larger USD inflows resulting from increased US sales via marketing and the USD appreciation. In recent years the ISK deficit has emerged and expanded from being trivial to a

significant and growing ISK shortfall since 2009. This trend stems from the revenue growth in foreign markets, whilst the consequential added operations are domestic and need to be covered by ISK. This shortage is financed by a surplus of European currencies, most importantly the EUR, CAD and Scandinavian currencies. The Group follows a policy of hedging 50–80% of the net currency exposure 9–12 months forward. In addition to the impact on cash flow, risk exposure of this nature affects the balance sheet. The risk committee monitors on a monthly basis the net balance sheet currency mismatch and mitigates the exposure through short-term management of assets and loans to the extent feasible and within the scope of the cash flow objectives.

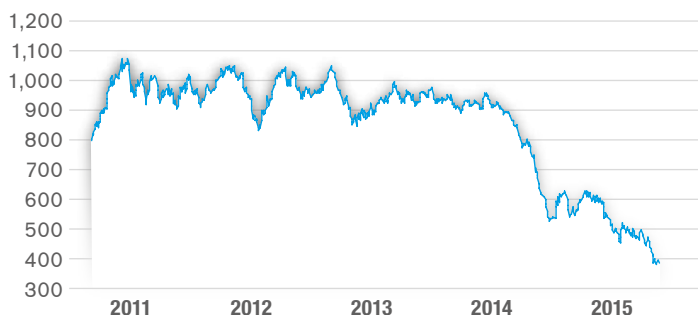
Fuel price risk

The Group's risk policy requires a hedge ratio between 40 and 60%, 9–12 months forward. Account is taken of the ratio of forward ticket sales as a minimum cover if it exceeds the 40% lower band. The policy entails a mixture of swaps and options, which are allocated in accordance with the degree of risk exposure. The policy and hedge strategy take account of several supporting factors which are eligible to counter the fuel risk exposure. These factors are acknowledged as hedge proxies and evaluated to some extent as substitutions for hedge contracts. First, contractual risk transfer is used where possible and the benefits of a correlation between jet fuel and the USD are monitored and calculated on a regular basis. Second, ticket pricing is a very important and effective tool in the medium term to offset fluctuations in fuel prices. Third, production management is a longer-term option, which can become relevant when coping with fuel price trends over longer periods. Hedge strategies are subject to IFRS hedge accounting standards, but the embedded

Six month USD libor | 2011–2015



Jet fuel price USD per tonne | 2011–2015



EUR/USD exchange rate | 2011–2015



Carbon price EUR per tonne | 2011–2015



instrument quality requirements align importantly with policy guidelines of sufficient effectiveness, reporting clarity and the transparency of scenario analysis. Thus, basis risk is avoided and hedge effectiveness sustained by choice of instruments. .

Interest rate risk

The Group follows a policy of hedging 40–80% of the interest rate exposure of long-term financing with up to a 5-year horizon. Currently, foreign loans are hedged against interest rate fluctuations using fixed-rate loan contracts or swap contracts, where the floating rate is exchanged for fixed interest rates. When evaluating the interest risk exposure and the optimal level of contractual protection, account is taken of the Group's level of cash and marketable securities and various other offsetting economic factors. As a result of repayments and prepayments of loans in 2014 and 2015 the capital structure has changed considerably and interest payments are currently of little significance. However, due to future investments steps have been taken to prepare for future funding and to contemplate rate protection measures to meet the consequential growth in interest rate exposure. Various strategies and instruments to cover future interest risks have been evaluated, but these still fall outside the policy framework in terms of tenor. In light of the recent attractive low-rate environment the issue has deserved close attention, and policy exemptions provide some scope for action when or if desirable.

Carbon price risk

Since the beginning of 2012 all airlines offering European destinations have been required to comply with the EU Emissions Trading Scheme (ETS), which commits them to raise their carbon permits in proportion to their emissions

Risk Management, continued:

of carbon. Icelandair Group is already hedged against roughly 50% of its 2016 exposure through the EU allocations of emissions quotas. In November 2012 the EU decided to offer airlines flying to and from European destinations an exemption from the Scheme with respect to international flights. Icelandair accepted this offer and its commitment was therefore reduced to covering internal European flights. Again, in April 2014, the EU extended this exemption to 2016 and has therefore relieved airlines temporarily from the uncertainty of the carbon exposures within this time frame. Emission permits are mainly purchased with spot and forward contracts, and carbon exposure is subject to the same scrutiny and risk management as jet fuel. However, while the consequences of the ETS compliance is economically trivial in comparison with the magnitude of fuel cost volatility, the emission allowances will not be embedded into the fuel hedge strategies yet, but instead procured on a rolling 3-6 month basis in relation to fuel consumption.

Liquidity risk

Liquidity risk reflects the Group's ability to fulfil its payment obligations associated with financial liabilities. The liquidity risk management is based on a policy of minimum cash target levels deemed adequate under both normal and stressed conditions. Imbedded in the policy are guidelines concerning the quality of the cash equivalents and financial assets. Through risk analysis and based on past experience the Group has used an estimation of three month operating costs as a benchmark for the preferred minimum cash positions, where 30% can be in the form of unused lines of credit. Cash flow requirements and their effects on the cash levels are monitored by using rolling currency flow forecasts which are updated on regular basis.

Credit risk

Credit risk is dependent on the likelihood of the counterparty's default and the loss of their financial obligations. The greatest part of the exposure is concentrated in the form of cash and cash equivalents. Secondly there are considerable commitments through trade and other receivables from services rendered. The relative spread of claims across counterparties is a relevant factor contributing to the credit risk exposure in addition to the composition of asset classes. The risk is countered by the choice of counterparties and dealt with in the accounts with allowances for impairment. The Group maintains an awareness of potential losses relating to credit risk exposure and chooses its counterparties based on business experience.

Industry-related risk factors

At group and subsidiary levels, management monitors and assesses the airline industry's risk exposure, which has historically posed uncertainty, even in normal operating conditions. A part of the Company's culture stems from its long history, including a general recognition of the value of learning from past experience. Yet, in addition to the retrospective view, management systematically focuses attention on potential threats from a prospective viewpoint, as the environment is extremely cyclical. The Group operates and thrives in well-established and defined markets which, as such, can be regarded as valuable intangible assets that require attention. Icelandair's credibility and reputation are crucial for its market status and growth, but the markets are also sensitive to external factors, such as the macroeconomic elements governing aggregate demand. An economic downturn will usually reduce the general purchasing power of potential customers and thereby the demand for air travel. Airlines are prone to even greater

vulnerability when it comes to other types of shocks which are more sudden and forceful. Abnormal weather conditions and volcanic eruptions in recent years have caused costly and unanticipated threats of disruptions. Terrorist incidents and pandemics are also examples of events which need to be considered at all times. Factors that can be analysed and monitored with respect to reasonable risk of occurrence and impact call for close monitoring and readily available contingency plans. The ash cloud experience of Eyjafjallajökull Glacier in 2010 and Grímsvötn in 2011 put the contingency planning and operational flexibility of Icelandair Group to the test and they proved successful. This experience benefits the Group now in light of the recent Holuhraun eruption and geological unrest in Bárðarbunga Glacier, which calls for constant monitoring and scenario analysis. The Company owes its adaptive potential and flexibility of operations chiefly to its capable human resources, contingency policies and economies of scale. The quality of the Company's responsive processes enables us to cope with other adverse circumstances and industry factors, such as seasonality, competition, insurance and new taxes.

Operational risk

The Group distinguishes between industry-related risks and those which expose the subsidiaries at individual company level. Embedded in the Group's operations is a natural spread of business risk, not only in terms of market diversification, but also between the subsidiary business models themselves. This dispersion of interests has delivered rewards during periods of economic turbulence. Methods of coping with threats of disruptions and disturbances are also decentralised when it comes to operational hazards. Again, the long and successful history of Icelandair Group

and its companies is a valuable asset, which serves both as the foundation and the benchmark for many of the policies and contingency plans used across the Group. The Group's computer and communication systems are crucial for sales and market activities, but also for uninterrupted internal operations. Equipment maintenance is needed to guarantee airworthiness. Third-party services may become bottlenecks in the production chain, whether in catering, ground services or flight control. Human resources need to be managed, labour disputes resolved and work stoppages prevented. Wage negotiations were extensive in 2014 and 2015, involving a number of different unions covering a large majority of the Company's work force. These were favourably resolved after extensive efforts on both sides. Management constantly evaluates the risks involved and the potential consequences of individual events. Scenarios are projected, charted and contemplated and action plans launched based on possible outcomes, where collaboration is maintained between the Group and its individual companies.

Enterprise risk management

Risk management needs access to a secure and steady flow of information about all enterprise-related risks at the Group level and thus requires centralised mapping and detailed registration of risk factors and their estimated inherent financial value and potential consequences. The Group's Risk Management Committee has focused on enterprise-related risk assessment in collaboration with Internal Audit and concentrated on aligning risk records across all subsidiaries to achieve consistency and compliance. The key objective of Enterprise Risk Management is to enhance motivation in risk analysis and improve risk awareness, standardise the quantification of risk and establish the Company

culture that is needed to promote everyday risk awareness and risk-reduction measures. Cash-flow stress testing is now performed with enterprise risk inputs by simulating events and scenarios induced by the factors defined in the risk registry. Although based on sensitive and qualitative assumptions, this practice has the merit of shedding light on the possible operational and financial consequences of external and internal disturbances. Semi-annual results are submitted to the Audit Committee for evaluation and support. ■

05

Foul and dull you dismiss
the fog of our fatherland –
don't you realize it is
the creator changing his mind?

Icelandic Fog (1902)



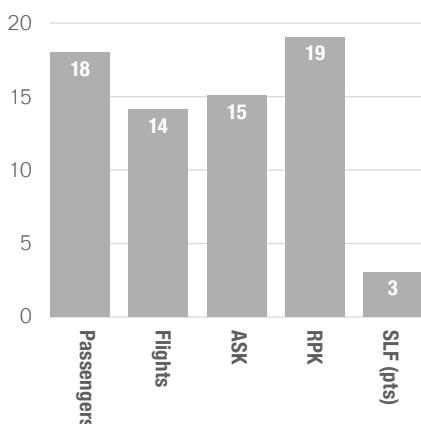


International Route Network

The business concept behind Icelandair Group’s largest subsidiary, Icelandair, is based on Iceland’s advantageous geographic position on the flight routes between Europe and North America, making it an ideal central point for an extensive international hub-and spoke network, spanning the distance between both continents. In a typical element of Icelandair’s Route Network, an aircraft will take off from Keflavik Airport in the morning and fly to Europe. It will then return later in the day and continue westward to North America to return to Iceland on the morning after.

new destinations will provide excellent opportunities to strengthen the Route Network still further. The number of passengers in 2016 is projected at close to 3.7 million, as compared to 3.1 million in 2015. A total of 25 Boeing 757 aircraft and 2 Boeing 767 aircraft will be used to serve the Company’s passenger routes next summer, three more than in 2015. The addition of the wide-body Boeing 767 into an otherwise single type fleet is an indication of the Network growth.

Traffic Data | YOY Change in %



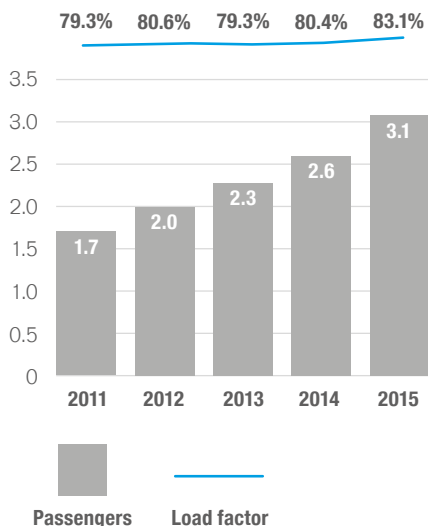
Three different markets served

Icelandair’s Route Network serves three different and independent passenger markets: the Icelandic domestic market, i.e. the FROM market, the tourist market with Iceland as a destination, i.e. the TO-market, and the international market between Europe and North America, i.e. the VIA market. Serving these three markets enables the Company to offer a higher flight frequency and a greater variety of destinations than the markets to and from Iceland alone would allow. Of the three markets, the VIA market is the largest and has been the main driving force of the growth of the Route Network in recent years. Since 2010 the proportion of VIA passengers has grown from 39% to 49% of the total passenger numbers in 2015.

Increased connectivity in a growing network

In 2016 the Route Network will connect 27 European cities with 16 North American cities through the hub in Iceland during the high season. The 43 destinations offer Icelandair customers 427 connection options, which corresponds to a connectivity multiple of 9.9 times the number of destinations. In 1990 the Route Network comprised 12 destinations with the option of 39 connections for our customers, representing a connectivity multiple of 3.3 relative to each destination. This comparison illustrates the exponential increase in the Network’s connectivity.

Number of passengers (millions) and load factor | 2011–2015



Continued growth of the Route Network

Icelandair’s flight schedule for 2016 will be the largest in the Company’s history, growing by 24% from the 2015 schedule. Four new destinations are being added to the Route Network: Chicago, US, Montreal, Canada, Paris Orly, France and Aberdeen, UK, in cooperation with Air Iceland. In addition, the frequency of flights to various cities in North America and Europe will be increased. The number of weekly departures from Keflavik will increase from 284 to 325 over next summer’s high season. The

Increased number of destinations and flight frequency

When a new flight schedule is announced for the coming year the new destinations will usually get the most attention, but in fact the greatest change in 2016 will lie in the greater frequency of flights to and from the current destinations. As an example of the extended reach of the Route Network, year-round daily flights will now be offered to five cities in North America, up from two cities three years ago, and daily flights will be offered all year to thirteen European cities this winter, up from five cities three years ago.

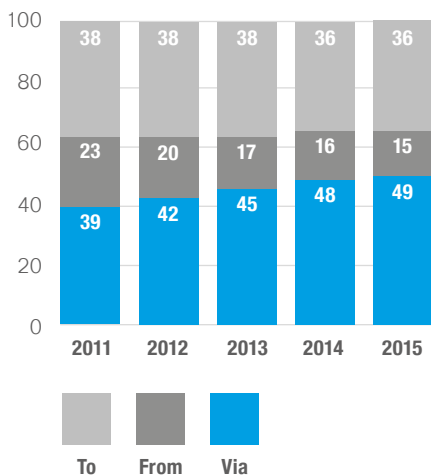
The Route Network



Iceland's uniquely central location between Europe and North America is the key to our hub-and-spoke network. In 2016 the Route Network will connect 27 European airports with 16 North American airports through the Company's hub. The number of passengers in 2016 is projected at about 3.7 million, with 25 Boeing 757 aircraft and 2 Boeing 767 wide-body aircraft serving the Route Network.

International Route Network, continued:

Passenger mix in % | 2011–2015



24-hour hub and spoke concept at Keflavik Airport

The heart of the Route Network is the 24-hour hub at Keflavik Airport. In the morning Icelandair's aircraft take off for all the destinations in the East. They reach Europe around mid-day and start the return flight early in the afternoon. Because of the 2-hour time difference between Iceland and most of Europe, the fleet is typically back in Keflavik at around mid-day, Icelandic time. The North America operation begins toward late afternoon and the fleet arrives in the U.S. and Canada in the early evening and returns to Keflavik early in the morning of the next day, just in time to depart again for Europe.

Second connecting bank

The main focus to date has been on connecting flights through the hub at Keflavik, with morning flights to European cities and afternoon flights to North America. In recent years, however, a second connecting bank has been set up, with departures from Keflavik just before noon. In 2014 there were two flights daily through this second bank to North

America and four flights to Europe. A third flight to North America was added in 2015, as well as a fifth flight to Europe. In 2016 the fourth North America flight will be added and a sixth flight to Europe. The expansion through a second bank gives the option of two separate departure times per day to certain destinations, providing extra support for the main connection bank in the morning. The second connecting bank is operated for over 5 months in 2016, early May until October, extended by 3 weeks in comparison with 2015.

Seat capacity

Almost two thirds of the seat capacity in the Route Network is on flights to Europe, with the remaining capacity deployed on North American routes. The United States is Icelandair's largest single destination country, while its European network focuses mainly on Scandinavia and Northern Europe, with the United Kingdom as the Company's second largest destination country. Daily year-round frequency for the winter 2016 to 2017 is planned on 18 out of 43 routes. The Company offers eleven routes with a frequency of double daily flights or more during the peak season.

Icelandair fleet

Iceland is situated on the busiest transatlantic flight paths connecting North-America and Europe. Flights from Iceland to Europe are between 3 and 4 hours long, and flights to North America take between 5 hours (Halifax, Boston) and about 8 hours (Denver, Orlando), which enables the use of narrow-body Boeing 757 aircraft in the entire Route Network. In 2015 the fleet comprised a total of 24 Boeing 757 aircraft, the majority configured with 183 seats. One 757 and two 767s, with 262 seats, will be added to the fleet in 2016, bringing the total number of aircraft in the Network to 27. The Company's aircraft have three classes: a business class, economy comfort and economy class. The

fleet is equipped with personal in-flight entertainment systems and Icelandair offers on-board WiFi connections on all its routes.

The Company has ordered sixteen 737 Boeing MAX8 and 737 Boeing MAX9 aircraft, with an option to buy an additional eight aircraft. Delivery of the first aircraft is scheduled for early 2018. The order involves nine 737 MAX8 aircraft, with a seating capacity of 153 passengers, and seven 737 MAX9 aircraft, with a seating capacity of 172 passengers. A mixed fleet of Boeing 757s, Boeing 767s and Boeing 737 MAX aircraft fits well into Icelandair's Route Network, as Europe and North America are within the reach of all the three aircrafts. The new aircraft will be an excellent addition to the fleet and increase both flexibility and capacity for growth through added frequency and new destinations.

Marketing in all key markets

International marketing and sales activities are organised through Icelandair's offices in its key markets: North America, Scandinavia, Continental Europe, the United Kingdom and Iceland, the last being the location of the Company's headquarters. In addition, the Company has sales agents in large markets outside the core network, such as Asia. Extensive efforts are being made to promote Iceland as a tourist destination and to brand Icelandair as a stimulating and uniquely Icelandic travel experience.

79 years of operations

The strategy of Icelandair is to use the efficiency and flexibility of its operation to be the leading airline for travel to and from Iceland as well as a distinctive and exciting alternative for air travel across the North Atlantic. The mission is to operate a first-rate airline and to maintain a reliable quality service through the experience and knowledge gained from 79 years of operation. ■

Cargo Operation

Icelandair Group's cargo operation focuses on air-freight services to and from Iceland by leveraging the Group's strong international Route Network, which comprises Icelandair's passenger routes combined with scheduled air cargo flights to and from North America and Europe.

Iceland's largest air cargo operator

The market area served by Icelandair Group's cargo operation is based on the Group's Route Network, both international and domestic. Icelandair Cargo operates two B757-200 cargo aircraft in addition to utilising the passenger aircraft of Icelandair and Air Iceland. In 2015 Icelandair Cargo offered direct service to 49 international destinations in Europe and N-America and to 4 domestic destinations. Extensive collaboration with overland haulage companies in Europe and North America enables services to and from all the principal cities in these market regions. Icelandair Group also co-operates with a number of other air carriers to offer continued flights to more distant markets, including Asia.

The Group's cargo operation has offices in New York and Liège in Belgium. In addition, cargo operation has agencies in all of Iceland's principal market areas in Europe, America and Asia.

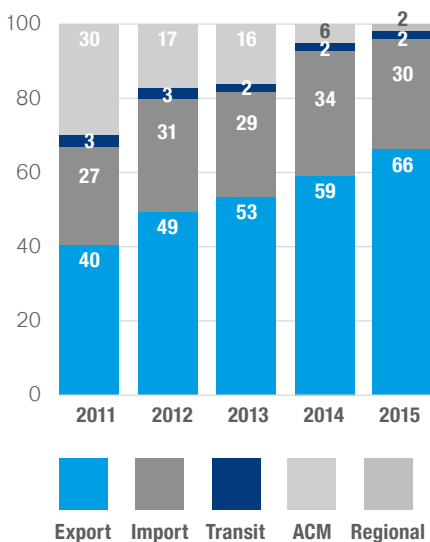
Fresh fish the most important export product

Carried freight measured in freight ton kilometres (FTK) amounted to 101 million FTKs in 2015, up by 3% from the preceding year. The total increase from 2010 is 38%. Fresh fish has been the most important product for the export part of the operation, and in particular the volume to N-America has been increasing. After years of stagnation following the financial crisis in 2008 imports to Iceland have been showing faster growth in the last two years.

Favourable outlook in 2016

Icelandair Group's cargo network places the Icelandic fish industry in a unique position to distribute its products, which in turn will continue to strengthen the market position of the Group's cargo operation for exports. Two 767-300 wide-body aircraft will be added to Icelandair's fleet offering more belly space than B757. Fresh fish will remain the fundamental product for export going forward, as it has been in recent years. We anticipate that exports of fish will continue to be strong in 2016. The outlook for imports is also better for 2016, a stronger growth than in any year since 2008 is anticipated, as imports are projected to increase in line with improving economic conditions in Iceland. A significant increase in imports to Iceland was observed in the second half of 2015, and this trend is expected to continue in 2016. ■

Revenue split in % | 2011–2015



Aircraft Leasing

Icelandair Group offers capacity solutions to international passenger airlines and tour operators under the Loftleidir-Icelandic brand. Launched as a marketing vehicle for the Group's international Aircraft, Crew, Maintenance and Insurance (ACMI) and charter market services, Loftleidir-Icelandic has narrowed its focus to leverage its expertise as a capacity solution provider, concentrating mainly on Aircraft and Maintenance (AM) projects and consulting services. The company operated four B757 200s, two B767 300s, two B737 800s and one B737 700 aircraft at year-end 2015.

Highlights in 2015

In 2015 there was continued growth on the ACMI market. As in the last few years, the strongest demand has been for narrow bodies, especially A320s and B737 NGs. The wide-body market, on the other hand, has seen slower growth, with operators finding not only the B767 being challenging to place, but also the A330 and A340.

The B777 has not yet entered the wet lease ACMI market as a serious player, but an increased number of the type has been offered on a dry lease basis, which indicates a slow decline in demand for the type.

2015 was a busy year for Loftleidir-Icelandic, with new contracts being made with both existing and new customers.

The Company was able to extend and expand contracts with existing customers, including the addition of a second aircraft to Apple Vacations, a US tour operator, for flights out of Boston and Detroit to the Caribbean and Mexico, and increase the number of VIP flights in the service of both Abercrombie & Kent and Lakani in California.

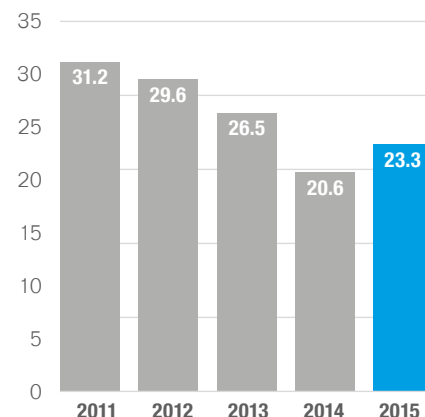
As in 2014, Loftleidir-Icelandic continued to expand the portfolio of customers by adding three new ACMI customers in 2015. The Company re-entered the Hajj market by contracting a single B767 to Saudi Arabia Airlines, operated the Company's first commercial B757 flights to Antarctica in cooperation with Polar Services, Panama, and contracted a B757 to FlySalone in Sierra Leone until spring 2016.

Market outlook for 2016

The market outlook for the aircraft leasing market in 2016 is expected to be similar to 2015. Demand for the narrow-body aircraft, Airbus 318-321 family and B737NGs, continues to be stronger than the market for wide bodies.

However, there is more availability of the B737 NG type, especially the early vintage aircraft. This is due to market trends in Russia and the normal aging of the world fleet of aircraft. The B757 dry lease market has become very small and isolated, with limited availability due to the small size of the market. As for the wide-body market, there is a continued surplus of most types, B767s & B777s as well as the A330 & A340 type. This is clearly reflected in the wet lease market, as demand for wide bodies continues to be slow. As before, Icelandair Group's aircraft leasing operation will be focusing on the AM product in its sales and marketing efforts, especially the B737NG type, while maintaining its marketing efforts in the VIP, ACMI & Full Charter markets. ■

Number of sold block hours (thousands) | 2011-2015



Hotels and Hospitality

Icelandair Group's hotel and hospitality operations provide hospitality services through a cohesive mix of international and local brands. The Icelandair Hotel brand fuses traditional hotel hospitality with innovative services to keep up with the trends and requirements of the modern traveller's lifestyle.

Authentic Icelandic experience

The vision of the Group's hotel operations is to create an authentic Icelandic experience for visiting tourists. The focus is on leveraging Iceland's unique qualities as a tourist destination to add value to Iceland as a destination and support the Group's other operations.

Although guests using Icelandair Group's hotels come from all over the world, the principal targeted markets are linked to the Group's international Route Network. The ongoing increase in the number of flights on existing routes and new North-America and European gateways provide ample opportunities for further growth for the hotels. Marketing efforts involving Icelandair Hotels in 2016 will focus both on existing and prospective new gateways.

Icelandair Hotels, offers eight high-quality hotels. Edda Hotels operates 11 summer hotels, offering a diverse choice of lodgings at key locations around the country. The Hilton Reykjavik Nordica is a high quality hotel that sets the standard for competitors to follow.

Increased availability and occupancy in 2015

The achievements of recent years in terms of increased availability, occupancy and average room rates were surpassed in 2015. The continued success of the newest property, Icelandair Hotel Reykjavik Marina, which opened in April 2012, was one of the year's highlights. A new luxury accommodation; Reykjavik Marina Residence, opened its doors in 2015 with seven suites located in two separate houses, beside Hotel Reykjavik Marina. A new hotel will be opened in May 2016 – Canopy Reykjavik | City Centre, the first Canopy hotel in the world, located in the heart of Reykjavik. In addition, the company is currently developing two other Reykjavik properties, which will both be part of the luxury and upscale Curio collection by Hilton,

both scheduled for opening in 2017–18. A hotel by lake Myvatn in northern Iceland is also scheduled for opening in 2017–18. Planning, concept and design work will therefore play a prominent role in 2016 and onward.

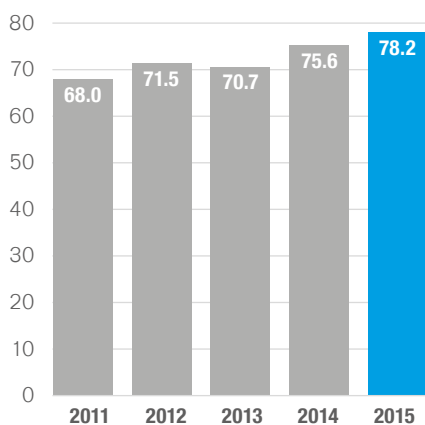
Ongoing development and further improvements of the company's infrastructure and technical solutions made their mark on the year's operations, as well as successful improvements in the online appearance and booking interface of all three hotel brands. In 2015 attention was focused on further developing Icelandair Hotels' own in-house education and training centre. The purpose of the centre remains to attract future candidates for culinary and front-line work in order to build up and improve the local hospitality infrastructure, as well as to support Icelandair Group's own operations in line with the increasing number of hotel rooms and expanded food and beverage services offered by the Company. Icelandair Hotels is a proud recipient of the Employers' Education Award – SA Business Iceland 2016.

Ongoing increase in bookings and revenues foreseen in 2016

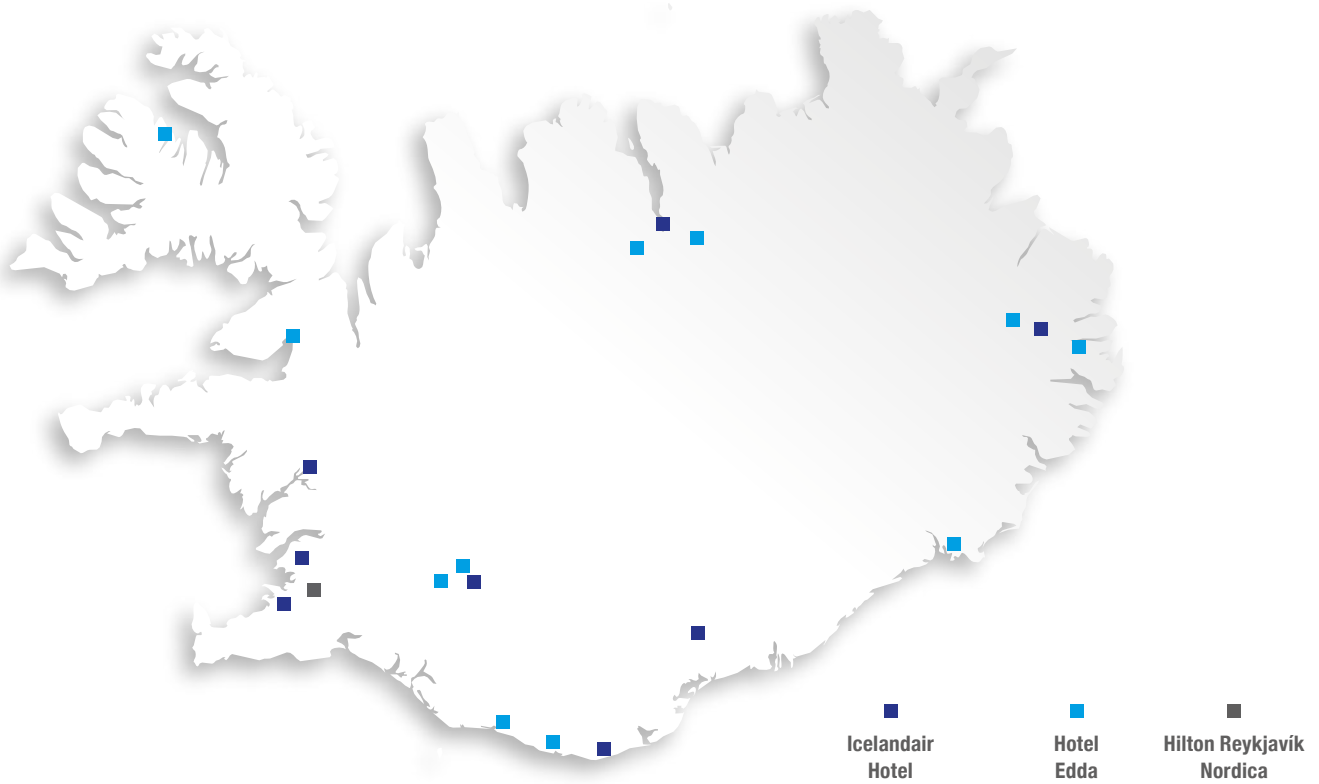
In addition to taking advantage of the abundant opportunities for further growth for Icelandair Group's hotels arising out of both the existing and forthcoming gateways of the international Route Network, other main projects will include ongoing development of the new properties mentioned earlier and continued focus on identifying and securing key locations for future expansions in rural Iceland. Along with the work on renovating our properties, efforts will continue to improve booking procedures, increase online visibility and enhance the Group's brand strength and infrastructure.

While the expanded flight schedule of our international Route Network will

Occupancy in % | 2011–2015

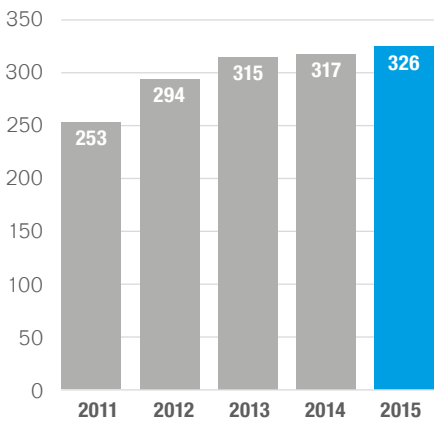


Location of our hotels | 2016



open new markets, resulting in improved hotel room occupancy, the ongoing construction of new hotels in Iceland may well result in competitive downward pressure on average prices and could create a more challenging environment. Nevertheless, the focus of Icelandair Group's hotel operations remains clear: to continue to lead the way as the outstanding provider of an authentic Icelandic experience at all our hotels. ■

Available hotel room nights (thousand) | 2011-2015



Regional Airline Operations

Icelandair Group's regional carrier, Air Iceland, offers domestic flights to four destinations in Iceland and five destinations in Greenland. Air Iceland's focus is on offering efficient and reliable air transport to improve the quality of life of people who live in sparsely populated areas with limited options for short travel times to and from urban centres. Dependable regional flight services also make it possible for a number of business undertakings and public agencies to operate in an efficient manner. Co-operation with other airlines enables interregional connections, both domestically in Iceland and to Greenland and the Faroe Islands.

Strong roots in Iceland

Icelandair Group's regional operations have strong roots that extend back to the dawn of aviation in Iceland. The aim of the Group's regional services is to operate an extensive and flexible domestic flight schedule in Iceland and the West Nordic countries. In the course of our decades of domestic and regional air services, Icelanders have relied on our efforts to enable close links between friends and families, swift communications between businesses and just-in-time deliveries of goods and supplies. Tourists in Iceland have also appreciated the opportunities afforded by Air Iceland for quick transport to remote areas.

Fleet

The Group's regional fleet comprised in 2015 five Fokker 50 and two Bombardier Q200 aircraft.

Fokker 50 aircraft have been the mainstay of the regional operation for some 25 years, but in 2015 the decision was made to replace the Fokker 50s with three Bombardier Q400 aircraft. In light of the good experience of Bombardier aircraft since their inclusion in the fleet in 2006 it was a logical step to look at the larger version in the Q400 to replace the Fokker 50. By retaining the two Q200s with their 37 seats and adding in three Q400s with their 72-76 seats, the flexibility to meet different market demand is preserved, but at the same time the operation is being streamlined by focusing on a single aircraft manufacturer and thereby on the same type of training for the cockpit crews. The Q400, with its high speed performance, also opens opportunities for new destinations, which will be explored further in 2016.

Growth of tourism in Iceland stimulates demand

Icelandair Group's regional operations have benefitted from the growth in tourist arrivals in Iceland over the last five years.

Product development has increasingly been focused on foreign tourists, with marketing efforts concentrated on offering a wide variety of day tours and multi-day tours combining domestic and regional flights. The relative proportion of foreign tourists utilising the domestic network was 15% of total passenger numbers in 2015 and is Air Iceland's fastest growing market segment.

On Greenland flights sustainable growth has been reached over the last five years, and with the addition of a new destination, Kangerlussuaq, in the summer of 2016, this growth is expected to continue. New product development, offering varied and attractive packages, lies at the heart of the marketing efforts in the Greenland market.

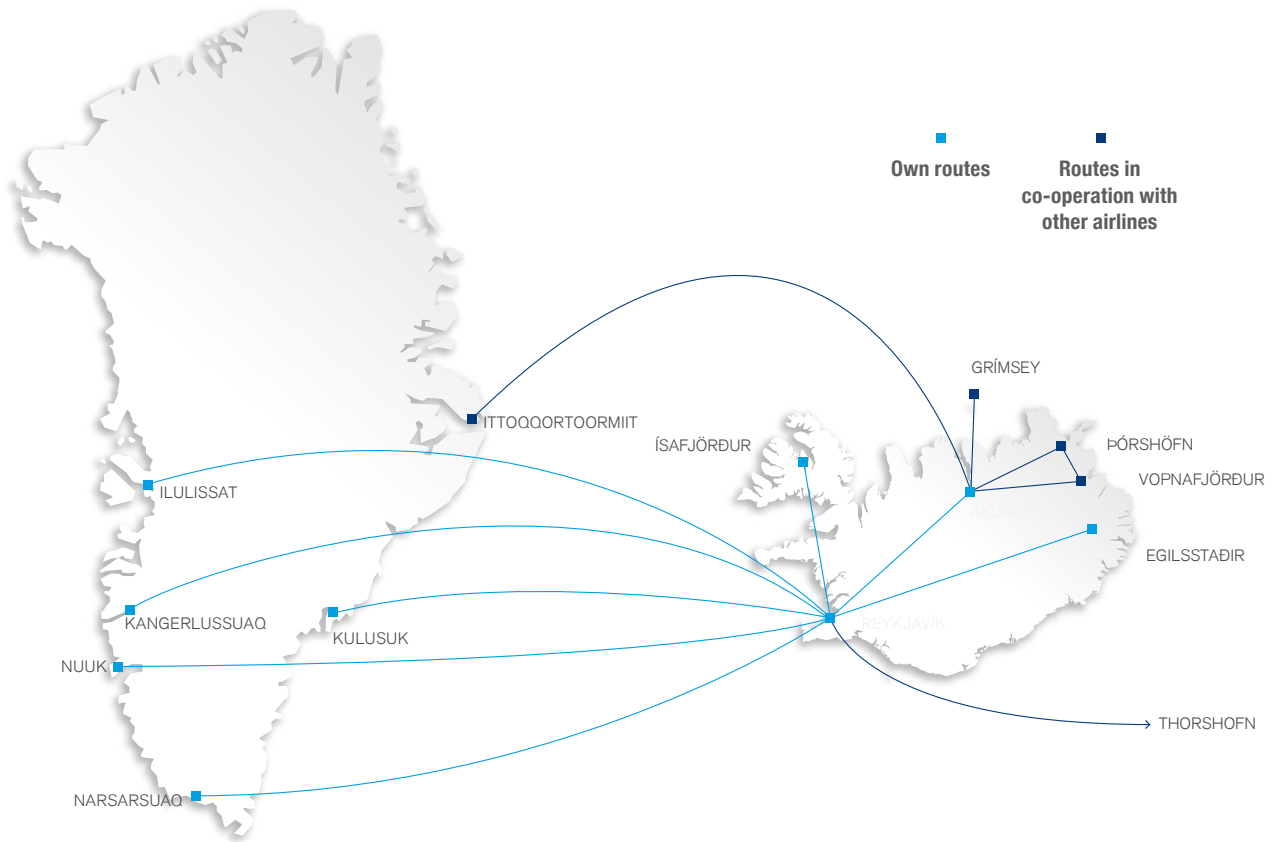
Improving outlook

Air Iceland's domestic operation has historically shown a strong correlation with the underlying performance of the local economy. Most economic forecasts assume continued growth in Icelandic GDP, with increased purchasing power and investment capacity, which should be reflected in growing demand for domestic flight services. However, future prospects will also depend on government policy regarding public levies on air travel.

Although mining and oil exploration in Greenland are currently at a low, the demand for Greenland as a tourist destination is growing, and the number of passengers on routes to and from Greenland is expected to increase in 2016 from 2015, as it has increased over the last half decade. Air Iceland's focus on the tourist market to Greenland will be further extended as the demand for travel to Greenland continues to grow in both existing and new markets.

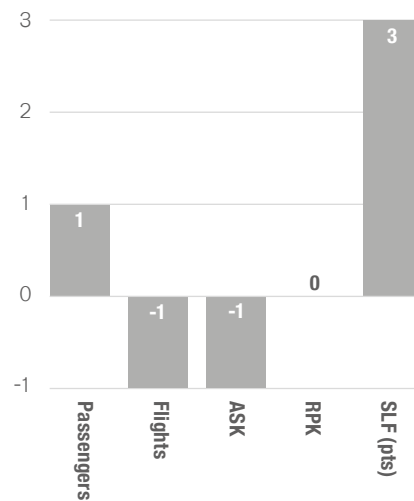
With the introduction of the Bombardier Q400 aircraft new opportunities have opened up, and from March 2016 Air Iceland will operate four flights a

Route network regional airline operations | 2016

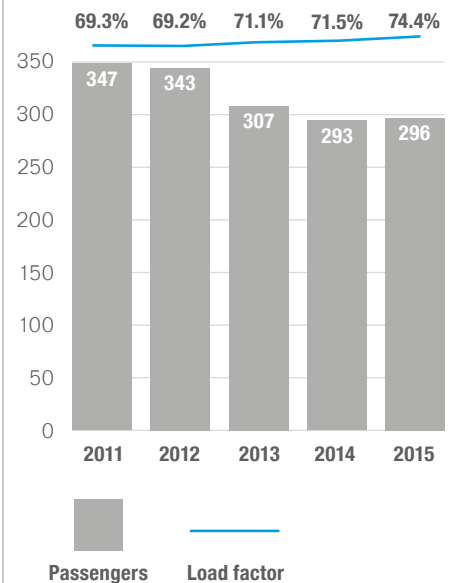


week on a code-share agreement with Icelandair on the route between Keflavik and Aberdeen. Icelandair's Route Network, with Keflavik as a hub, has been growing rapidly for the last five years, which has opened up new demand for smaller feeder traffic to maximise the benefit of the hub system. This new operation of Q400 aircraft from Keflavik is expected to set the stage for a third main revenue stream for Air Iceland alongside its domestic and Greenland operation. ■

Traffic data | YOY Change in %



Number of passengers (thousands) and load factor | 2011-2015



06

You, Sea, are my shipmate!
Now by your side I share
as a partner in the sky
and the world's every shore.

Eastwards (1917)





Icelandair Group and Society

Icelandair Group is a part of the Icelandic society. Every day we contribute to our society by creating value. Every day we strive to meet the needs of our customers. Icelandair Group is proud of its role in the Icelandic community and continues to seek new opportunities to expand its ties to society at large. That is how Icelandair Group energises the power of the Icelandic tourism industry for the benefit of Iceland as a nation.

Focus elements of our stakeholder model

We focus on creating sustainable value for our stakeholders by integrating into our business model a wide range of efforts to ensure our social responsibility.

- **Employees and Governance:**
Exemplary corporate governance and commitment to our employees with extensive programmes for human resource development.
- **Environment:**
Minimize our impact on the environment by setting measurable targets, raising awareness and benchmarking our performance to do better than before.
- **Society:**
Co-operate with society and ensure that the impact of our operations is beneficial through direct contributions and positive engagement with society at large

We believe in stakeholder engagement. We believe in matching ourselves against other international airlines and tourism companies, identifying where the Group stands in comparison with its competitors and finding where improvements can be made. Finally, we believe in regularly reviewing our sustainability initiatives and maintaining an open dialogue with our employees.

It is our firm belief that a clear and concise social responsibility strategy, when successfully implemented, will add value and have relevance for economic, environmental and social factors, for both Icelandair Group and for our key stakeholders.

Developing our sustainability strategy

It is important to bear in mind that our adherence to a sustainability strategy does not simply mean tweaking current

initiatives that are already being successfully implemented; it means putting all our current activities and various initiatives into a coherent and comprehensive context that can be easily communicated and understood by stakeholders, and it means adding new priorities and setting new measurable targets. It means educating our employees, engaging them and empowering them to develop new initiatives.

We are committed to continuous improvements. We see a coherent and well-implemented sustainability strategy for Icelandair Group as a means of deepening our understanding of the Company and the environment in which we operate, through:

- A clearer view of the Company's risks and opportunities when it comes to environmental and social factors.
- Clearer communication with internal and external stakeholders.
- Better coordination among the different subsidiaries of Icelandair Group when it comes to environmental and social risk.

At Icelandair Group, we believe that the implementation of a sustainability policy is most likely to be successful if the policy is directly linked to the Company's business strategy. That is how we contribute best to our society. ■

Employees

Icelandair Group's employees have played a major part in the Company's growth in recent years, with their broad range of skills and knowledge, as required by the diverse nature of the operations. Their flexibility and dedication have been instrumental in dealing with a constantly evolving business environment. The expansion of our business operation has required us to recruit a large number of new employees, and the team spirit fostered by our corporate culture has enabled us to successfully accommodate them. Without the qualities and skills of our employees the Company would not have enjoyed the success that it has, and we will rely on them even more as we continue to grow.

Employees

Icelandair Group has grown rapidly in recent years, adding many destinations, carrying many more passengers, adding a number of hotel rooms, and generally growing across all segments. The growth has led to a hefty increase in the number of employees, with the Group's staff growing by more than forty percent since 2010.

We always try to integrate new employees quickly into the Company's corporate culture. This fosters the team spirit needed to link employees throughout the the Company's different corporate units. We make every effort to bring all our employees from all companies within the Group, in Iceland and abroad, into our family.

Our team spirit has helped us manage the strain caused by our rapid growth and by the various natural disasters that have disrupted our services. Our employees have proved their mettle, displaying their commitment and resilience, energy and flexibility. They have been a major reason for the Company's success.

Recruitment

As one of Iceland's largest private employers, and with its long and well-known history, Icelandair Group has always been viewed as an attractive place to work. We have always been able to recruit well-qualified personnel from a large local pool of talented and dedicated individuals who are eager to join the Company. Once we have acquired top talent, we try to provide the training and development needed to promote our employees to their full potential.

Our recruitment process is designed to select the people who are best suited for each specific type of job, not only based on professional qualifications, but also based on how we think they will fit into our corporate culture. Recruiting internally from our own ranks also ensures greater engagement and commitment from our employees. As the Company grows we are able to offer an ever wider range of jobs for highly trained professionals at competitive salaries in an international working environment.

Icelandair Group employees, full time equivalents (FTEs) | by company 2011–2015

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|--------------|--------------|--------------|--------------|--------------|
| Icelandair | 1,179 | 1,236 | 1,387 | 1,529 | 1,678 |
| IGS | 386 | 425 | 469 | 544 | 571 |
| Icelandair Cargo | 44 | 47 | 49 | 49 | 51 |
| Loftleidir | 11 | 11 | 11 | 11 | 11 |
| Air Iceland | 224 | 224 | 230 | 221 | 215 |
| Icelandair Hotels | 313 | 384 | 468 | 495 | 568 |
| Iceland Travel | 76 | 64 | 94 | 115 | 135 |
| Feria (Vita) | – | 21 | 19 | 18 | 21 |
| Fjárvakur - Icelandair Shared Services | 105 | 107 | 109 | 115 | 120 |
| Parent company | 13 | 13 | 13 | 12 | 14 |
| Icelandair Group total | 2,350 | 2,532 | 2,850 | 3,109 | 3,384 |

Employees, continued:

Icelandair Group employees, full time equivalents (FTEs) | by company:

| | Jan. 2015 | Jul. 2015 |
|------------------------|--------------|--------------|
| Icelandair | 1,410 | 1,899 |
| IGS | 441 | 770 |
| Icelandair Cargo | 44 | 58 |
| Loftleidir | 11 | 11 |
| Air Iceland | 204 | 245 |
| Icelandair Hotels | 459 | 796 |
| Iceland Travel | 119 | 146 |
| Feria (Vita) | 20 | 20 |
| Fjárvakur – Icelandair | | |
| Shared Services | 116 | 122 |
| Icelandair Group | 14 | 14 |
| Total | 2,838 | 4,081 |

Every year, during the high tourist season in Iceland, about a 1,200 extra employees join the Company, many of them students. Many return to work for us year after year and a good number join us later as full-time employees. We also use the opportunity to spot talent for later reference. By the time these part-time workers eventually come to work for us full-time they have already acquired knowledge of the Company and our corporate culture.

Professional development

At Icelandair Group, we take the professional development of our employees very seriously. We believe that training and experience make a vital contribution to our employees' capacity in addition to innate talent and formal qualifications. We want to employ people who find satisfaction in adding to their knowledge, developing their skills and then putting these skills and knowledge to meaningful use in their work.

We provide our employees with a variety of training opportunities and courses that suit their needs, because we want to make the best use of their talents. We try to provide as much opportunity as possible within the Company, as evidenced by our new training centre in Hafnarfjörður, where we have set up a sophisticated flight simulator, which brings important training in-house, making it more flexible, more efficient and more cost-effective. Needless to say, we also place particular emphasis on training our staff to maintain rigorous safety and security standards.

Communication

We believe that Icelandair Group is best served by keeping employees well informed of Company affairs. With our operations so diverse and dispersed over so many countries, we think it's essential to maintain engagement and foster team

spirit among our employees by keeping them apprised of what is going on throughout the Company. We share this information through newsletters and employee meetings, as well as the Company intranet, MyWork.

MyWork serves as a repository of the accumulated knowledge and experience of our employees, where it can be easily accessed at any time. Through MyWork, information is channelled to those who need it, when they need it, thereby improving efficiency and saving both time and money. MyWork is continually being enhanced and improved, and new information is constantly being added.

We are also in favour of direct contact, holding regular meetings with employees where they can discuss their ideas and concerns directly with top management, including the CEO. Through these exchanges we are able to build trust between employees and management, which in turn is the basis for achieving optimum results. All of this leads to greater job satisfaction and serves to keep our employees committed and maintain a team spirit within the Company.

Human resources strategy

Icelandair Group seeks to attract talented and qualified personnel who can help the Company meet the challenges of the future while at the same time fitting into the existing corporate culture. We provide access for our employees to further development and training so that we can always select the best person for every job. We make every effort to improve the well-being of our employees, maintaining an attractive, yet challenging and demanding workplace, and enabling them to flourish and achieve their highest potential.

Our HR strategy emphasises equality and non-discrimination and embraces diversity. We also train our employees in observing safety and security standards and we have in place detailed action

plans designed to achieve our goals. We make sure that our employees are given equal opportunities to further their careers. Above all, we endeavour to make sure that all our employees feel they are part of a team.

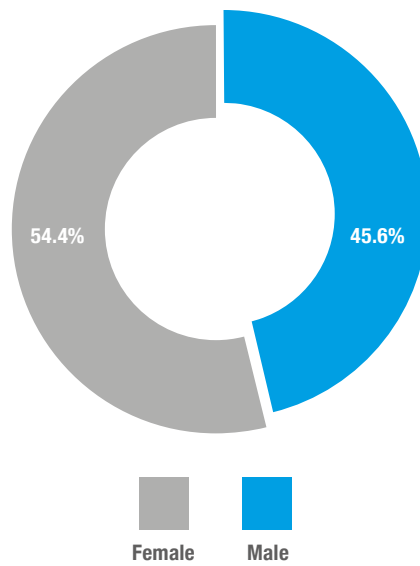
We regularly carry out work audit surveys among Icelandair Group employees, where we try to measure various indicators of how well our HR strategy is working. We regularly score high in job satisfaction and employee engagement, and in the latest survey, conducted this autumn, these factors showed higher scores than ever before.

Corporate culture

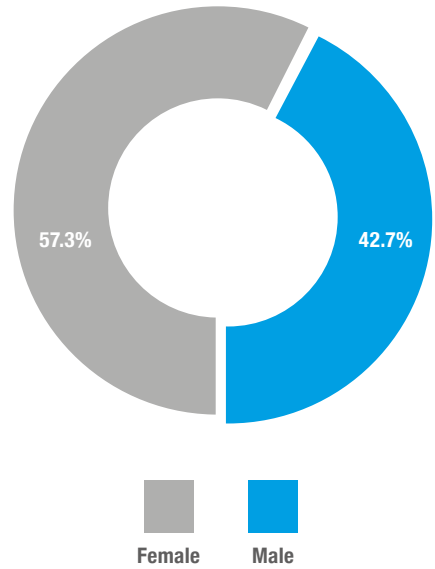
Icelandair Group’s corporate culture is characterised by a strong team spirit, originally fostered in our base in Iceland. Although the Company is a prominent player in Iceland, it is still small compared to its international competitors and relies heavily on the quality of its employees for its success. Flexibility, efficiency, responsiveness, drive and initiative count as our strengths.

Throughout our long history we have served as the main gateway for travellers to Iceland as well as the first choice for Icelanders travelling to the rest of the world. This is a fundamental service, which we still provide and which needs to be carried out as seamlessly as possible. To do this we must retain our awareness that every employee is important and every customer valuable. This knowledge underpins our corporate culture and informs our experience as we continue to grow. ■

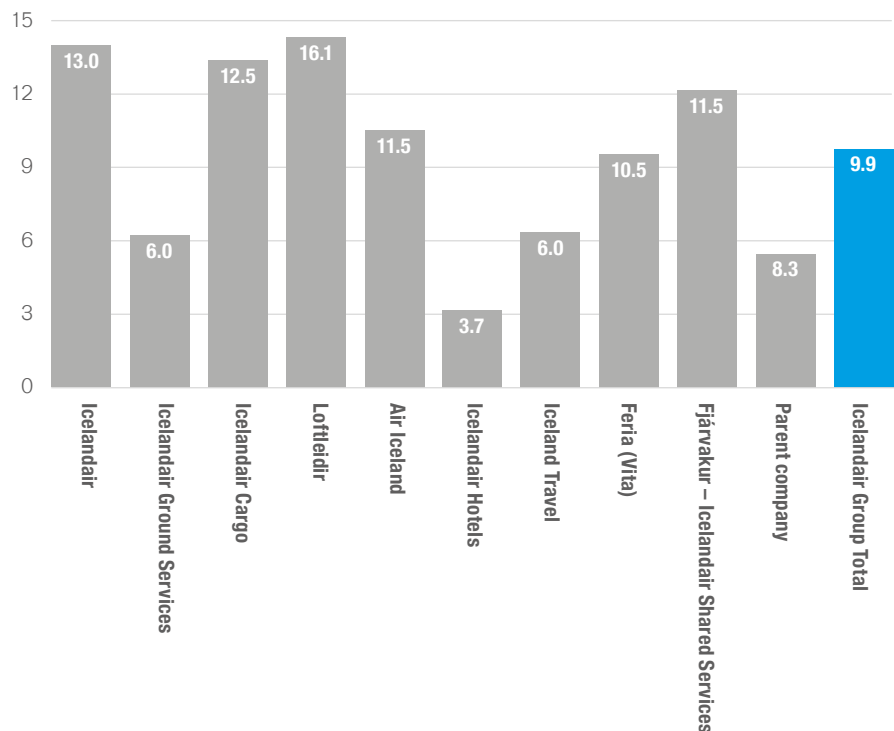
Male/female ratio
Icelandair Group | January 2015



Male/female ratio
Icelandair Group | July 2015



Average job tenure in years | by company 2015



Environment

Icelandair Group is an environmentally conscious company, committed to addressing its environmental responsibilities. We are dedicated to minimising the environmental impact of our operations, both globally and locally, by reducing emissions, conserving natural resources and optimising the use of sustainable energy and materials. This is underpinned by our continuous endeavour to improve our environmental performance and set ambitious objectives.

Icelandair Group is going green

Icelandair Group's environmental impact is not limited to flight operations. It also involves ground facilities, offices and maintenance areas. Our goal is to maximise the use of green energy and minimise waste in all operations by embracing sustainable solutions.

In order to achieve this goal, Icelandair Group is working towards completing the implementation of Environmental Management Systems for all Icelandair Group companies by year-end 2016, having already achieved ISO-14001 certification for Icelandair Hotels and Icelandair Ground Services. Icelandair has completed the IATA Environmental Assessment (IEnvA) programme Stage 1 assessment for its Environmental Management System, and is working towards stage 2 assessment. Icelandair Group is committed to implementing programmes of continuing environmental education for its staff and informing its customers of the importance of environmental awareness. In this way we seek to contribute to a successful future for our Company, as well as for the rest of the world.

Environmental policy

Icelandair Group's Environmental Policy describes our approaches to protecting and preserving the environment. All Company employees are responsible for ensuring compliance with Company policy. Management at all Company subsidiaries and entities are adopting guidelines and procedures to comply with the Company's environmental policy.

Minimising the environmental impact of our operations is an important element of Icelandair Group's business plan.

We are focused on keeping Icelandair Group green by means of sustainable practices and optimal use of the resources at our disposal.

Icelandair Group is committed to minimising its impact on the environment

by continuous improvement of the Company's environmental policies, sustainable material use and disposal, conduct of business with environmentally friendly suppliers and adherence to environmental protection principles.

We recognise that even though the operations of our subsidiaries may vary, we share important principles. In addition to compliance with applicable laws and regulations, we show our continuing commitment by:

- Minimising our carbon footprint and raising awareness
- Reducing waste by increasing recycling
- Promoting responsible use of resources
- Increasing the use of environmentally friendly products and services

We are committed to supporting continuous improvement by setting measurable targets, raising awareness and benchmarking our performance.

Environmental awareness

Icelandair Group is committed to increasing the environmental awareness of all employees. We have implemented a training program throughout the whole organisation, emphasising individual participation and an understanding of the environmental impact that each employee can have.

We communicate locally with our employees within the organisation on environmental performance. We also communicate environmental awareness to our customers, suppliers and the general public.

Fuel consumption and fuel efficiency

Recognising the importance of conserving fuel and minimising CO2 emissions, Icelandair Group monitors and evaluates all new ideas and solutions in this field, and all departments participate in this

activity. The main goal of the Icelandair Fuel Management Committee is to reduce fuel burn and thereby reduce the emission of greenhouse gases, in particular CO₂, and air pollutants (NO_x). During the past few years, numerous changes have been made to both the Company's operations and its aircraft.

For example, most aircraft are now fitted with winglets that reduce fuel burn, and on-board weight-saving initiatives have proven successful. We constantly pursue new ways of improving fuel burn in our operations by analysing every aspect of all flights and flight planning.

In 2015, fuel burn per 100 revenue passenger kilometre (RPK) was 3.79 litres, as compared to 3.83 L/100 RPK in 2014, and 3.86 L/100 RPK in 2013.

In 2015 fuel burn per operational tonne kilometre (OTK) was 0.290 kg, as compared to 0.296 kg/OTK in 2014 and 0.297 kg/OTK in 2013.

Aircraft noise and engine emissions

All aircraft operated by Icelandair have since October 1990 fully complied with the ICAO international requirements of Annex 16 Environmental Protection Vol I "Aircraft noise" and Vol II "Aircraft Engine Emissions".

Icelandair continuously strives to adopt targeted procedures to reduce the environmental impact of its aircraft, both to reduce noise and carbon emission. Examples of such procedures include Continuous Descent Approach (CDA), jet engine core wash, targeted centre of gravity loading and single engine taxiing.

We are committed to ensuring that our operations and the aircraft we purchase will enable us to continue to reduce our environmental impact on communities in the vicinity of airports, particularly in relation to the issue of aircraft noise and engine emissions.

Minimising waste and managing utilities

Icelandair Group acknowledges its responsibility to reduce the amount of waste resulting from its operations, whether aluminium tins, paper or used parts in maintenance areas. The Company Waste Management Programme helps reduce, recycle and reuse materials across the organisation. Icelandair Group is constantly reviewing its processes and operations and identifying possible new ways to reduce unnecessary waste. The Company's aircraft, ground facilities, offices and maintenance areas are dedicated to minimising its environmental footprint with regard to energy, materials and related emissions and waste. The Company focuses on best practices by implementing initiatives to minimise the use of resources and identify cost savings throughout the system.

The Waste Management Programme has been implemented throughout our entire organisation. Successful employee participation in waste reduction and sorting has increased recycling of the waste that is sent from our facilities. We will continue to promote, develop and encourage waste reduction on site in a systematic and cost-effective manner. We use suitable regulated waste management contractors that ensure safe management and handling of hazardous and non-hazardous waste sent off-site in accordance with best environmental practice. The Company's goals are to reduce waste and increase recycling of materials, conserve energy, reduce pollution and minimise greenhouse gas emissions. Accordingly, our offices follow a "Print Only What You Need" policy and they buy supplies manufactured from recycled material when available. Icelandair Group offices sort paper, plastic, metal, batteries and used printer cartridges in an effort to reduce waste and increase general recycling.

Environmentally friendly purchasing

Icelandair Group will implement a purchasing policy under which we support suppliers that have adopted environmental practices.

Relevant suppliers will be audited with regard to their environmental awareness and the level of environmental control they have implemented in their operations in order to support our environmental policy.

Environmentally friendly commuting

Icelandair Group views public transportation, carpooling, biking and telecommuting as means to save energy and reduce greenhouse gas emissions from employees' travels to and from work. We pursue an environmentally sound commuting policy and encourage our employees to consider other options than drive-alone commuting in our effort to reduce greenhouse gas emissions and adopt more environmentally friendly practices.

Where applicable Icelandair Group employees are invited to participate in a commuting agreement, committing themselves to choose environmentally friendly ways of commuting to and from work. ■

Community

Icelandair Group and its subsidiaries support a wide variety of community activities all year round. The main focus is on support for Icelandic sports, Icelandic music, the Icelandic tourist industry and the Special Children Foundation.

Special Children Travel Fund

The main objective of the Special Children Travel Fund (Vildarbörn) is to help children suffering from long-term illness or other difficult circumstances to see something of the world. The fund is supported both directly by Icelandair and through the generous donations of our customers. In 2015 48 children and their families, around 240 people in all, received travel grants from the fund to go on their "dream journey". Since the fund was established thirteen years ago, 529 families have been supported in this way. Vigdis Finnbogadóttir, former President of Iceland, is the protector of the fund. For more details see www.vildarborn.is

Co-operation with Reykjavik University

RU is Iceland's largest private university, a dynamic international university with over 3,000 students. We support and work alongside students and teachers at Reykjavik University on a wide range of annual projects. Knowledge sharing is key and each year we strive to engage new talent to work on various projects within our Company.

The Icelandic Tourism Fund

Icelandair Group is a leading shareholder in the Icelandic Tourism Fund, an investment fund focused on new projects that increase the diversity of Icelandic tourism and strengthen its infrastructure. The fund's main focus is on experience-based investments and on supporting the development of year round attractions for tourists and Icelanders alike. ITF is the leading investor in Fákasel, the Icelandic Horse Park, in Whales of Iceland, the largest whale exhibition in Europe and in Into the Glacier, the largest man-made icecave in Europe, situated in the Langjökull glacier.

The National Olympic and Sports Association of Iceland

The National Olympic and Sports Association of Iceland (ISI) is the umbrella organisation of the entire sports movement in Iceland and the supreme authority in all amateur sports activities and associated volunteer work in Iceland under the Sports Act. ISI organises and oversees Iceland's participation in the Olympic Games, Games of the Small States of Europe and other sports events held under the auspices of the International Olympic Committee (IOC). Icelandair has been a long-time supporter of ISI and is one of the four companies forming the ISI Olympic Family.

Icelandic Handball Federation

The Icelandic Handball Federation has sent its athletes across the world in team colours that prominently feature the Icelandic flag and the Icelandair Logo. Team handball is an extremely popular sport in Iceland, and Icelandic players and coaches have achieved outstanding results, both in Iceland and abroad. The Icelandic men's team took the silver at the Beijing Olympics in 2008 and the bronze at the European Championship in Austria in 2010.

Iceland Football Association

The Iceland Football Association (KSI) was founded in 1947, and Icelandair has been a long-time faithful sponsor. The Icelandic national teams, the men's and women's A-teams and the U21, U19 and U17 teams, fly with Icelandair with the Company's logo on their travel attire. In 2015 the men's A-team qualified for the first time for participation in Euro 2016 in France, making Iceland the smallest nation ever to qualify for a major football tournament and the first to do so with a population under one million.

Iceland Basketball Association

The Iceland Basketball Association is responsible for all basketball activities in Iceland, and Icelandair sponsors the Association and its affiliated basketball teams in competitions in Iceland and abroad. Basketball is one of the world's most popular sports; it is also popular in Iceland and the national team has been competing with growing success, making its first appearance at a major tournament, the EuroBasket tournament, in Berlin 2015.

Icelandic Golf Association

Golf is an extremely popular sport in Iceland, and the Icelandic Golf Association is one of the largest sports associations in Iceland. Icelandair has actively supported the work of the Association in recent years, and Icelandic elite golfers have flown with Icelandair and borne the company's logo on their competition attire. Icelandair has for a long time focused on providing traveling leisure golfers with the services that they need, and the successful co-operation with the Icelandic Golf Association is an extension of those services.

World Championship of the Icelandic Horse

Icelandair Cargo is the principal sponsor of the World Championship of the Icelandic Horse, which is held annually at various locations in Europe.

Iceland Sports Association for the Disabled

The Iceland Sports Association for the Disabled (IF) is the supreme authority in sports for the disabled under the auspices of the National and Olympic Sports Association of Iceland. IF organises and oversees Iceland's participation in the Paralympics, the Special Olympics and other major sports events for disabled athletes. Icelandair has supported IF for 25 years and is one of the association's five largest sponsors and partners.

Iceland Airwaves

Icelandair is the founder and main sponsor of Iceland Airwaves (or "Icelandair waves" as some of us like to spell it), a music festival held in October each year in Reykjavik. Iceland Airwaves is an annual music event that started in 1999 as a talent show for the benefit of foreign record company executives; since then Airwaves has grown and blossomed and is now an integral part of the cultural life of Reykjavik. The fruits of the festival's labour have been ripening, and today many Icelandic artists, such as Quarashi, Sigur Ros, Apparat Organ Quartet, Trabant, Of Monsters and Men and others, have made their way to the international music scene. For more details see the festival website www.icelandairwaves.com.

Iceland Music Experiments

Icelandair is proud to offer young and talented musicians an opportunity to shine through Iceland Music Experiments (IME). IME is a musical event where young people make their musical debut and get their first chance to step into the limelight and play their music. Icelandair rewards IME victors by offering them the opportunity to perform at the annual Iceland Airwaves festival.

Reykjavik Airbridge

Icelandair supports Icelandic musical talent beyond Iceland Airwaves. Through co-operation with the city of Reykjavik, and musicians' organisations, Icelandair has set up a fund that helps Icelandic musicians to market themselves abroad. This allows them to tour and/or engage in other marketing activities outside Iceland.

Food and Fun

Food and Fun is an event which combines outstanding culinary skills, fresh natural ingredients, Icelandic outdoor adventure and the world-famous Reykjavik nightlife to create the ultimate

recipe for fun. The core element of the festival involves world-acclaimed chefs who collaborate with Reykjavik's best restaurants. Each chef is assigned to one of the participating restaurants, where they prepare a special menu, made exclusively with Icelandic ingredients. The menu is featured at all the restaurants for an entire week. In addition, the chefs themselves are on site for three nights during the festival week. Icelandair is the founder and owner of the Food and Fun event. More details online at www.foodandfun.is

Eyrarrósín

Air Iceland is the principal sponsor of Eyrarrós – a prize awarded annually to enterprises or persons who have made outstanding contributions to cultural activities in rural Iceland.

ICE-SAR

Slysavarnarfélagið Landsbjörg

Icelandair Group has since December 2014 been one of the main sponsors of ICE-SAR, the Icelandic Search and Rescue operation. The Company's objective is to provide support to enable the organisation to engage in efficient accident prevention and rescue efforts and to enhance the safety of tourists traveling in Iceland. The aim of the organisation is to minimise the frequency of travel accidents and reinforce the image of Iceland as a safe tourist destination by providing useful travel information and maintaining an effective safety net. The partnership will reinforce the already good work of ICE-SAR still further and will be an important factor in promoting safer tourism by various means, including the sponsorship and marketing of the SafeTravel.is website to tourists through Icelandair Group's distribution channels. The sponsorship agreement also provides for additional support to ICE-SAR, an efficient all-volunteer organisation, in its core field of search and rescue. ■

07

The sky leaned and clung to the glacial earth.
As if frozen at last to its clay ...

En Route (1898)





Endorsement and Statement by the Board of Directors and the CEO

Operations in the year 2015

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 with Iceland as a cornerstone of an international route network.

Profit for the year 2015 amounted to USD 111.2 million and total comprehensive income amounted to USD 109.4 million according to the consolidated statement of comprehensive income. Total equity at year end 2015 amounted to USD 456.5 million, including share capital of USD 40.6 million, according to the consolidated statement of financial position. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity during the year.

The Board of Directors proposes a dividend payment to shareholders in 2016 of ISK 3.500 million, equal to USD 26.9 million, which represents 24% of profit for the year 2015.

Share capital and Articles of Association

The nominal value of the Company's issued share capital amounted to ISK 5.0 billion at year-end, of which the Company held treasury shares of ISK 25.0 million. The share capital is divided into shares of ISK 1, each with equal rights within a single class of shares listed on the Icelandic Stock Exchange (Nasdaq OMX Iceland). Companies can acquire and hold up to 10% of the nominal value of treasury shares according to the Icelandic Company's Act.

The Company's Board of Directors comprises five members elected at the annual general meeting for a term of one year. Those persons willing to stand for election must give formal notice thereof to the Board of Directors at least 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.

The number of shareholders at year end 2015 was 2,386, an increase of 287 during the year. At year end 2015 the 10 largest shareholders were:

| Name | Shares in ISK thousand | Shares in % |
|--|---------------------------|--------------|
| Stefnir Sjóðir | 743,793 | 14.88 |
| Lífeyrissjóður verslunarmanna | 729,136 | 14.58 |
| Lífeyrissjóður starfsmanna ríkisins A deild og B deild | 439,300 | 8.79 |
| Gildi – Lífeyrissjóður | 316,706 | 6.33 |
| Stafir Lífeyrissjóður | 181,287 | 3.63 |
| Stapi Lífeyrissjóður | 167,447 | 3.35 |
| A.C.S safnreikningur I | 141,899 | 2.84 |
| Landsbréf – Úrvalsbréf | 141,262 | 2.83 |
| Sameinaði lífeyrissjóðurinn | 140,745 | 2.81 |
| Íslandssjóðir – IS Hlutabréfasjóður | 127,962 | 2.56 |
| | <u>3,129,537</u> | <u>62.59</u> |
| Other shareholders | 1,845,003 | 36.90 |
| Treasury shares | <u>25,460</u> | <u>0.51</u> |
| Total issued shares | 5,000,000 | 100.00 |

Further information on matters related to share capital is disclosed in note 25. Additional information on shareholders is provided on the Company's website www.icelandairgroup.com.

Corporate Governance

The Group's management is of the opinion that practicing good Corporate Governance is vital for the existence of the Group and in the best interests of the shareholders, Group companies, employees and other stakeholders and will in the long run produce satisfactory returns on shareholders' investment.

The framework for Corporate Governance practices within the Group consists of the provisions of law, the parent company's Articles of Association, general securities regulations and the Icelandic Corporate Governance guidelines issued by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and the Confederations of Icelandic Employers. Corporate Governance practices ensure open and transparent relationships between the Company's management, its Board of Directors, its shareholders and other stakeholders

Corporate Governance exercised within Icelandair Group hf. ensures sound and effective control of the Company's affairs and a high level of business ethics.

The Board of Directors has prepared a Corporate Governance Statement in compliance with the Icelandic Corporate Governance guidelines which are described in full in the Corporate Governance Statement in the Financial Statements.

It is the opinion of the Board of Directors that Icelandair Group hf. complies with the Icelandic guidelines for Corporate Governance.

Information on matters related to financial risk management is disclosed in note 31.

Statement by the Board of Directors and the CEO

The consolidated financial statements for the year ended 31 December 2015 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 year 2015, its assets, liabilities and consolidated financial position as at 31 December 2015 and its consolidated cash flows for the year 2015.

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

The Board of Directors and the CEO have today discussed the consolidated financial statements of Icelandair Group hf. for the year 2015 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, 8 February 2016.

Board of Directors:

Sigurður Helgason,
Chairman of the Board
Ásthildur Margrét Otharsdóttir
Katrín Olga Jóhannesdóttir
Magnús Magnússon
Úlfar Steindórsson

CEO:

Björgólfur Jóhannsson

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Icelandair Group hf., which comprise the consolidated statement of financial position as at 31 December 2015, 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.

The Board of Director's and CEO's Responsibility for the Consolidated Financial Statements

The Board of Directors and CEO are 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 they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial 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 judgement, including the assessment of the risks of material misstatement of the consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 2015, 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 and additional Icelandic disclosure requirements for consolidated financial statements of listed companies.

Report on the Board of Directors report

Pursuant to the legal requirement under Article 104, Paragraph 2 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 consolidated financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the consolidated financial statements. ■

Reykjavík, 8 February 2016.

KPMG ehf.
Alexander G. Eðvardsson
Auður Þórisdóttir



Consolidated
Financial
Statements

Consolidated statement of profit or loss and other comprehensive income for the year 2015

| | Notes | 2015 | 2014 |
|---|-------|------------------|-------------------|
| Continuing operation | | | |
| Operating income | | | |
| Transport revenue | 7 | 848,868 | 811,002 |
| Aircraft and aircrew lease | | 83,356 | 74,754 |
| Other operating revenue | 7 | 207,475 | 227,541 |
| | | <u>1,139,699</u> | <u>1,113,297</u> |
| Operating expenses | | | |
| Salaries and other personnel expenses | 8 | 280,244 | 273,161 |
| Aviation expenses | 8 | 406,649 | 457,296 |
| Other operating expenses | 8 | 233,824 | 228,502 |
| | | <u>920,717</u> | <u>958,959</u> |
| Operating profit before depreciation and amortisation (EBITDA) | | 218,982 | 154,338 |
| Depreciation and amortisation | 9 | (83,826) | (75,329) |
| Operating profit (EBIT) | | 135,156 | 79,009 |
| Finance income | | 12,818 | 7,194 |
| Finance costs | | (8,210) | (6,079) |
| Net finance income | 10 | <u>4,608</u> | <u>1,115</u> |
| Share of profit (loss) of associates | 17 | <u>459</u> | <u>(216)</u> |
| Profit before tax | | 140,223 | 79,908 |
| Income tax | 20 | (29,000) | (15,483) |
| Profit from continuing operations | | 111,223 | 64,425 |
| Discontinued operation | | | |
| Profit from discontinued operation, net of tax | 6 | <u>0</u> | <u>2,074</u> |
| Profit for the year | | <u>111,223</u> | <u>66,499</u> |
| Other comprehensive income | | | |
| Items that are or may be reclassified to profit or loss | | | |
| Currency translation differences | | (1,686) | (5,403) |
| Net loss on hedge of investment, net of tax | | 0 | (15) |
| Net investment hedge reclassified to profit or loss | | 0 | 719 |
| Effective portion of changes in fair value of cash flow hedge, net of tax | | (118) | (23,833) |
| Other comprehensive loss for the year | | <u>(1,804)</u> | <u>(28,532)</u> |
| Total comprehensive income for the year | | <u>109,419</u> | <u>37,967</u> |

The notes on pages 77 to 108 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and
other comprehensive income for the year 2015, continued;

| | Notes | 2015 | 2014 |
|---|-------|----------------|---------------|
| Profit attributable to: | | | |
| Owners of the Company | | 111,318 | 66,509 |
| Non-controlling interests | | (95) | (10) |
| Profit for the year | | <u>111,223</u> | <u>66,499</u> |
| Total Comprehensive income attributable to: | | | |
| Owners of the Company | | 109,523 | 37,998 |
| Non-controlling interests | | (104) | (31) |
| Total comprehensive income for the year .. | | <u>109,419</u> | <u>37,967</u> |
| Earnings per share: | | | |
| Basic earnings per share in US cent per share | 26 | 2.24 | 1.34 |
| Diluted earnings per share in US cent per share | 26 | 2.24 | 1.34 |
| Earnings per share from continuing operations: | | | |
| Basic earnings per share in US cent per share | 26 | 2.24 | 1.30 |
| Diluted earnings per share in US cent per share | 26 | 2.24 | 1.30 |

The notes on pages 77 to 108 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position as at 31 December 2015

| | Notes | 2015 | 2014 |
|--|-------|-----------------------|-----------------------|
| Assets: | | | |
| Operating assets | 11-14 | 419,071 | 319,340 |
| Intangible assets and goodwill | 15-16 | 172,694 | 175,973 |
| Investments in associates | 17 | 18,223 | 2,324 |
| Deferred cost | 18 | 118 | 153 |
| Receivables and deposits | 19 | 27,474 | 16,413 |
| Non-current assets | | <u>637,580</u> | <u>514,203</u> |
| Inventories | 21 | 19,205 | 22,906 |
| Trade and other receivables | 22 | 101,075 | 96,470 |
| Short term investments | 23 | 19,533 | 30,879 |
| Cash and cash equivalents | 24 | 194,586 | 184,762 |
| Current assets | | <u>334,399</u> | <u>335,017</u> |
| Total assets | | <u><u>971,979</u></u> | <u><u>849,220</u></u> |
| Equity: | | | |
| Share capital | | 40,576 | 40,576 |
| Share premium | | 154,705 | 154,705 |
| Reserves | | 1,400 | 3,195 |
| Retained earnings | | 259,746 | 166,371 |
| Equity attributable to equity holders of the Company | 25 | <u>456,427</u> | <u>364,847</u> |
| Non-controlling interests | | 104 | 208 |
| Total equity | | <u>456,531</u> | <u>365,055</u> |
| Liabilities: | | | |
| Loans and borrowings | 27 | 55,387 | 49,671 |
| Payables | 28 | 8,644 | 8,291 |
| Deferred tax liabilities | 20 | 35,485 | 24,681 |
| Non-current liabilities | | <u>99,516</u> | <u>82,643</u> |
| Loans and borrowings | 27 | 10,143 | 12,263 |
| Trade and other payables | 29 | 219,680 | 214,315 |
| Deferred income | 30 | 186,109 | 174,944 |
| Current liabilities | | <u>415,932</u> | <u>401,522</u> |
| Total liabilities | | <u>515,448</u> | <u>484,165</u> |
| Total equity and liabilities | | <u><u>971,979</u></u> | <u><u>849,220</u></u> |

The notes on pages 77 to 108 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year 2015

| | Attributable to equity holders of the Company | | | | | Non- controlling interest | Total equity |
|------------------------------------|---|------------------|--------------|----------------------|----------------|---------------------------------|-----------------|
| | Share capital | Share premium | Reserves | Retained earnings | Total | | |
| 2014 | | | | | | | |
| Balance at 1 January 2014 ... | 40,576 | 154,705 | 31,706 | 118,856 | 345,843 | 239 | 346,082 |
| Total comprehensive income .. | | | (28,511) | 66,509 | 37,998 | (31) | 37,967 |
| Dividend (0.38 USD cent per share) | | | | (18,994) | (18,994) | | (18,994) |
| Balance at 31 December 2014 | <u>40,576</u> | <u>154,705</u> | <u>3,195</u> | <u>166,371</u> | <u>364,847</u> | <u>208</u> | <u>365,055</u> |
| 2015 | | | | | | | |
| Balance at 1 January 2015 ... | 40,576 | 154,705 | 3,195 | 166,371 | 364,847 | 208 | 365,055 |
| Total comprehensive income .. | | | (1,795) | 111,318 | 109,523 | (104) | 109,419 |
| Dividend (0.36 USD cent per share) | | | | (17,943) | (17,943) | | (17,943) |
| Balance at 31 December 2015 | <u>40,576</u> | <u>154,705</u> | <u>1,400</u> | <u>259,746</u> | <u>456,427</u> | <u>104</u> | <u>456,531</u> |

Information on changes in other reserves are provided in note 25.

The notes on pages 77 to 108 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows for the year 2015

| | Notes | 2015 | 2014 |
|---|-------|--------------------|--------------------|
| Cash flows from operating activities: | | | |
| Profit for the year | | 111,223 | 66,499 |
| Adjustments for: | | | |
| Depreciation and amortisation | 9 | 83,826 | 75,329 |
| Other operating items | 41 | 16,211 | 20,979 |
| | | <u>211,260</u> | <u>162,807</u> |
| Working capital from operations | | | |
| Net change in operating assets and liabilities | 42 | 33,876 | 52,508 |
| Net cash from operating activities | | <u>245,136</u> | <u>215,315</u> |
| Cash flows to investing activities: | | | |
| Acquisition of operating assets | 11 | (182,574) | (87,893) |
| Proceeds from the sale of operating assets | | 2,528 | 1,614 |
| Acquisition of intangible assets | 15 | (1,073) | (2,240) |
| Deferred cost, change | | (26,753) | (19,160) |
| Investment in associates | | (15,552) | (1,327) |
| Non-current receivables, change | | (7,882) | 1,770 |
| Short term investments, change | | 11,364 | (22,920) |
| Net cash used in investing activities | | <u>(219,942)</u> | <u>(130,156)</u> |
| Cash flows to financing activities: | | | |
| Dividend paid | 25 | (17,943) | (18,994) |
| Proceeds from non-current borrowings | | 23,660 | 813 |
| Repayment of non-current borrowings | | (20,037) | (70,503) |
| Net cash used in financing activities | | <u>(14,320)</u> | <u>(88,684)</u> |
| Increase (decrease) in cash and cash equivalents | | 10,874 | (3,525) |
| Effect of exchange rate fluctuations on cash held | | (1,050) | (3,251) |
| Cash and cash equivalents at beginning of the year | | <u>184,762</u> | <u>191,538</u> |
| Cash and cash equivalents at 31 December | 24 | <u>194,586</u> | <u>184,762</u> |
| Investment and financing without cash flow effect: | | | |
| Acquisition of operating assets | | 0 | (10,500) |
| Proceeds from non-current borrowings | | 0 | 10,500 |

Information on interest paid and received are provided in note 42.

The notes on pages 77 to 108 are an integral part of these consolidated financial statements.

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is at Reykjavíkurlugvöllur in Reykjavík, Iceland. The consolidated financial statements of the Company as at and for the year ended 31 December 2015 comprise the Company and its subsidiaries, together referred to as the "Group" and individually as "Group entities" and the Group's interests in associates. The Group primarily operates in the airline and tourism industry. The Company is listed on the Nasdaq OMX Iceland.

2. Basis of preparation

a. Statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. They were authorised for issue by the Company's board of directors on 8 February 2016.

b. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments and certain short-term investments are stated at their fair values.

Details of the Group's accounting policies, including changes during the year, are included in Note 44.

3. Functional and presentation currency

The Company's functional currency is U.S. dollars (USD). These Consolidated Financial Statements are presented in U.S dollars (USD), except for information in note 37 on salaries and benefits of management for their service to Group companies. Payments to management are denominated and presented in ISK. All financial information presented in USD has been rounded to the nearest thousand, unless otherwise indicated.

4. Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is included in the following notes:

Note 16 | measurement of the recoverable amounts of cash-generating units;

Note 20 | utilisation of tax losses;

Note 30 | deferred income;

Note 32 | provisions and valuation of financial instruments;

Note 38 | reassessment of taxes;

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

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

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

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

Notes, continued:

4. continued:

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

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

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

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

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

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 23 | short term investments;

Note 30 | deferred income;

Note 32 | derivatives;

Note 32 | non-derivative financial liabilities.

5. Operating segments

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

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

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

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 the 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 tourist 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.

Notes, continued:

5. continued:

Information on reportable segments

| | Route network | | Tourism services | | Total | |
|---|------------------|------------------|------------------|----------------|------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| External revenue | 1,011,532 | 992,159 | 125,204 | 121,105 | 1,136,736 | 1,113,264 |
| Inter-segment revenue | 139,859 | 131,441 | 8,679 | 7,961 | 148,538 | 139,402 |
| Segment revenue | <u>1,151,391</u> | <u>1,123,600</u> | <u>133,883</u> | <u>129,066</u> | <u>1,285,274</u> | <u>1,252,666</u> |
| Segment EBITDAR* | 240,975 | 179,685 | 16,897 | 17,990 | 257,872 | 197,675 |
| Operating lease expenses | (24,457) | (28,031) | (10,587) | (11,041) | (35,044) | (39,072) |
| Segment EBITDA | <u>216,518</u> | <u>151,654</u> | <u>6,310</u> | <u>6,949</u> | <u>222,828</u> | <u>158,603</u> |
| Finance income | 11,333 | 6,277 | 91 | 835 | 11,424 | 7,112 |
| Finance costs | (7,931) | (5,556) | (1,172) | (1,076) | (9,103) | (6,632) |
| Depreciation and amortisation | (81,039) | (72,994) | (2,777) | (2,307) | (83,816) | (75,301) |
| Share of profit (loss) of equity accounted investees | 19 | 24 | 18 | (38) | 37 | (14) |
| Reportable segment profit before tax | <u>138,900</u> | <u>79,405</u> | <u>2,470</u> | <u>4,363</u> | <u>141,370</u> | <u>83,768</u> |
| Reportable segment assets | 778,462 | 688,272 | 38,516 | 30,645 | 816,978 | 718,917 |
| Investment in associates | 167 | 167 | 466 | 457 | 633 | 624 |
| Capital expenditure | 201,771 | 113,658 | 8,445 | 5,860 | 210,216 | 119,518 |
| Reportable segment liabilities | 520,459 | 497,892 | 27,349 | 18,783 | 547,808 | 516,675 |

*EBITDAR means EBITDA before operating lease expenses.

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

| | 2015 | 2014 |
|---|------------------|------------------|
| Revenue | | |
| Total revenue for reportable segments | 1,285,274 | 1,252,666 |
| Other revenue | 2,963 | 33 |
| Elimination of inter-segment revenue | (148,538) | (139,402) |
| Consolidated revenue | <u>1,139,699</u> | <u>1,113,297</u> |
| Profit or loss | | |
| Total profit of reportable segments | 141,370 | 83,768 |
| Unallocated corporate expenses | (1,147) | (3,860) |
| Consolidated continuing profit before tax | <u>140,223</u> | <u>79,908</u> |
| Assets | | |
| Total assets for reportable segments | 816,978 | 718,917 |
| Investments in associates | 633 | 624 |
| Other assets | 154,368 | 129,679 |
| Consolidated total assets | <u>971,979</u> | <u>849,220</u> |
| Liabilities | | |
| Total liabilities for reportable segments | 547,808 | 516,675 |
| Elimination of inter-segment liabilities | (32,360) | (32,510) |
| Consolidated total liabilities | <u>515,448</u> | <u>484,165</u> |

Notes, continued:

5. continued:

| Other material items 2015 | Reportable segment totals | Adjustments | Consolidated totals |
|-------------------------------------|------------------------------|-------------|------------------------|
| Segment EBITDAR | 257,872 | (3,846) | 254,026 |
| Segment EBITDA | 222,828 | (3,846) | 218,982 |
| Finance income | 11,424 | 1,394 | 12,818 |
| Finance costs | (9,103) | 893 | (8,210) |
| Depreciation and amortisation | (83,816) | (10) | (83,826) |
| Share of profit of associates | 37 | 422 | 459 |
| Capital expenditure | 210,216 | 184 | 210,400 |
| Other material items 2014 | | | |
| Segment EBITDAR | 197,675 | (4,265) | 193,410 |
| Segment EBITDA | 158,603 | (4,265) | 154,338 |
| Finance income | 7,112 | 82 | 7,194 |
| Finance costs | (6,632) | 553 | (6,079) |
| Depreciation and amortisation | (75,301) | (28) | (75,329) |
| Share of loss of associates | (14) | (202) | (216) |
| Capital expenditure | 119,518 | 275 | 119,793 |

Geographic information

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

| <i>Revenues</i> | 2015 | 2014 |
|-------------------------------|-------------|-------------|
| North America | 37% | 32% |
| Iceland | 24% | 25% |
| West Continental Europe | 14% | 15% |
| Scandinavia | 9% | 11% |
| United Kingdom | 7% | 6% |
| Other | 9% | 11% |
| Total revenues | <u>100%</u> | <u>100%</u> |

6. Discontinued operation

On 30 December 2011 Smartlynx, previously classified as discontinued operations, was sold. Pursuant to the sale Icelandair Group guaranteed aircraft leases on behalf of Smartlynx and had outstanding loans to the Company. Following the sale Icelandair Group made provisions for potential losses due to guarantees and loans. At year-end 2014 all loans had been repaid and all lease guarantees had expired. The provision was therefore reversed in 2014 resulting in an income of 2.1 million USD net of taxes.

Notes, continued:

7. Operating income

Transport revenue is specified as follows:

| | 2015 | 2014 |
|-------------------------------|----------------|----------------|
| Passengers | 806,555 | 766,624 |
| Cargo and mail | 42,313 | 44,378 |
| Total transport revenue | <u>848,868</u> | <u>811,002</u> |

Other operating revenue is specified as follows:

| | | |
|--|----------------|----------------|
| Sale at airports and hotels | 65,948 | 77,295 |
| Revenue from tourism | 91,555 | 87,085 |
| Aircraft and cargo handling services | 27,453 | 33,209 |
| Maintenance revenue | 3,439 | 15,766 |
| Gain on sale of operating assets | 1,529 | 204 |
| Other operating revenue | 17,551 | 13,982 |
| Total other operating revenue | <u>207,475</u> | <u>227,541</u> |

8. Operating expenses

Salaries and other personnel expenses are specified as follows:

| | | |
|---|----------------|----------------|
| Salaries | 183,237 | 180,424 |
| Contributions to pension funds | 23,492 | 23,152 |
| Other salary-related expenses | 25,289 | 22,453 |
| Other personnel expenses | 48,226 | 47,132 |
| Total salaries and other personnel expenses | <u>280,244</u> | <u>273,161</u> |

| | | |
|---|-------|-------|
| Average number of full year equivalents | 3,384 | 3,109 |
|---|-------|-------|

Aviation expenses are specified as follows:

| | | |
|--|----------------|----------------|
| Aircraft fuel | 229,283 | 271,871 |
| Aircraft and aircrew lease | 22,896 | 26,653 |
| Aircraft handling, landing and communication | 85,662 | 82,888 |
| Aircraft maintenance expenses | 68,808 | 75,884 |
| Total aviation expenses | <u>406,649</u> | <u>457,296</u> |

Other operating expenses are specified as follows:

| | | |
|---|----------------|----------------|
| Operating cost of real estates and fixtures | 22,140 | 22,418 |
| Communication | 18,038 | 16,577 |
| Advertising | 23,902 | 23,665 |
| Booking fee and commissions | 48,910 | 45,464 |
| Cost of goods sold | 21,092 | 23,750 |
| Customer services | 20,578 | 20,510 |
| Tourism expenses | 52,301 | 50,497 |
| Other operating expenses | 26,863 | 25,621 |
| Total other operating expenses | <u>233,824</u> | <u>228,502</u> |

9. Depreciation and amortisation

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

| | | |
|--|---------------|---------------|
| Depreciation of operating assets, see note 11 | 80,146 | 71,632 |
| Amortisation of intangible assets, see note 15 | 3,680 | 3,697 |
| Depreciation and amortisation recognised in profit or loss | <u>83,826</u> | <u>75,329</u> |

Notes, continued:

10. Finance income and finance costs

Finance income and finance costs are specified as follows:

| | 2015 | 2014 |
|--|---------------|--------------|
| Interest income on bank deposits | 2,074 | 1,319 |
| Other interest income | 860 | 900 |
| Profit from sale of investments | 0 | 209 |
| Net currency exchange gain | 9,884 | 4,766 |
| Finance income total | <u>12,818</u> | <u>7,194</u> |
| Interest expense on loans and borrowings | 7,338 | 5,318 |
| Other interest expenses | 872 | 761 |
| Finance costs total | <u>8,210</u> | <u>6,079</u> |
| Net finance income | <u>4,608</u> | <u>1,115</u> |

11. Operating assets

Operating assets are specified as follows:

| | Aircraft and flight equipment | Buildings | Other property and equipment | Total |
|--|-------------------------------------|---------------|------------------------------------|----------------|
| Cost | | | | |
| Balance at 1 January 2014 | 402,830 | 30,347 | 38,686 | 471,863 |
| Additions | 72,030 | 5,775 | 20,588 | 98,393 |
| Sales and disposals | (54,380) | (1,109) | (3,431) | (58,920) |
| Effects of movements in exchange rates | (204) | (3,294) | (4,903) | (8,401) |
| Balance at 31 December 2014 | 420,276 | 31,719 | 50,940 | 502,935 |
| Additions | 159,565 | 9,299 | 13,710 | 182,574 |
| Sales and disposals | (49,877) | (248) | (3,589) | (53,714) |
| Effects of movements in exchange rates | (32) | (567) | (731) | (1,330) |
| Balance at 31 December 2015 | <u>529,932</u> | <u>40,203</u> | <u>60,330</u> | <u>630,465</u> |
| Depreciation and impairment losses | | | | |
| Balance at 1 January 2014 | 145,190 | 8,534 | 18,942 | 172,666 |
| Depreciation | 64,674 | 1,543 | 5,415 | 71,632 |
| Sales and disposals | (54,002) | (372) | (3,121) | (57,495) |
| Effects of movements in exchange rates | (67) | (992) | (2,149) | (3,208) |
| Balance at 31 December 2014 | 155,795 | 8,713 | 19,087 | 183,595 |
| Depreciation | 72,552 | 1,570 | 6,024 | 80,146 |
| Sales and disposals | (48,131) | (176) | (3,349) | (51,656) |
| Effects of movements in exchange rates | (13) | (191) | (487) | (691) |
| Balance at 31 December 2015 | <u>180,203</u> | <u>9,916</u> | <u>21,275</u> | <u>211,394</u> |
| Carrying amounts | | | | |
| At 1 January 2014 | <u>257,640</u> | <u>21,813</u> | <u>19,744</u> | <u>299,197</u> |
| At 31 December 2014 | <u>264,481</u> | <u>23,006</u> | <u>31,853</u> | <u>319,340</u> |
| At 31 December 2015 | <u>349,729</u> | <u>30,287</u> | <u>39,055</u> | <u>419,071</u> |
| Depreciation ratios | 6–33% | 2–6% | 5–33% | |

Aquisitions of operating assets 2015 include four Boeing 757, one Boeing 767 and three Bombardier Q400 aircraft amounting to USD 76,2 million.

Notes, continued:

12. Mortgages and commitments

The Group's operating assets, aircraft and spare parts are mortgaged to secure debt. The remaining balance of the debt amounted to USD 30,9 million at year end 2015 (2014: USD 49.8 million). The Group owns 35 aircraft, of which 30 are unencumbered, including 20 Boeing 757 and 1 Boeing 767.

13. Insurance value of aircraft and flight equipment

The insurance value and carrying amount of the Group's aircraft and related equipment at year-end is specified as follows:

| | Insurance value | | Carrying amount | |
|---|-----------------|----------------|-----------------|----------------|
| | 2015 | 2014 | 2015 | 2014 |
| Boeing – 26 / 21 aircraft | 581,000 | 577,000 | 263,311 | 218,780 |
| Other aircraft | 78,300 | 41,075 | 42,187 | 20,619 |
| Flight equipment | 63,998 | 64,642 | 44,231 | 25,082 |
| Total aircraft and flight equipment | <u>723,298</u> | <u>682,717</u> | <u>349,729</u> | <u>264,481</u> |

14. Insurance value of buildings and other operating assets

The principal buildings owned by the Group are the following:

| | Official assessment value | | Insurance value | | Carrying amount | |
|------------------------------------|---------------------------|---------------|-----------------|---------------|-----------------|---------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Maintenance hangar, Keflavík | 15,330 | 15,241 | 30,638 | 29,517 | 3,656 | 4,167 |
| Freight building, Keflavík | 4,054 | 3,439 | 6,856 | 7,198 | 3,446 | 3,471 |
| Office building, Reykjavík | 6,755 | 5,377 | 11,346 | 10,904 | 7,324 | 6,651 |
| Service building, Keflavík | 3,845 | 3,834 | 7,486 | 7,198 | 1,632 | 1,115 |
| Other buildings in Reykjavík | 4,903 | 6,112 | 9,855 | 9,475 | 1,762 | 1,598 |
| Other buildings | 5,652 | 2,892 | 19,845 | 8,183 | 12,467 | 6,004 |
| Buildings total | <u>40,539</u> | <u>36,895</u> | <u>86,026</u> | <u>72,475</u> | <u>30,287</u> | <u>23,006</u> |

Official valuation of the Group's leased land for buildings at 31 December 2015 amounted to USD 8.5 million (2014: USD 10.4 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 USD 80.8 million at year end 2015 (2014: USD 75.0 million). The carrying amount at the same time was USD 39.1 million (2014: USD 31.9 million).

Notes, continued:

15. Intangible assets and goodwill

Intangible assets and goodwill are specified as follows:

| | Goodwill | Trademarks and slots | Customer relations | Other intangibles | Total |
|---|-----------------|-----------------------------|---------------------------|--------------------------|--------------|
| Cost | | | | | |
| Balance at 1 January 2014 | 150,646 | 35,985 | 5,202 | 9,370 | 201,203 |
| Additions | 0 | 0 | 0 | 2,240 | 2,240 |
| Sales and disposals | 0 | 0 | 0 | (1,833) | (1,833) |
| Effect of movements in exchange rates | (2,130) | (24) | (44) | (182) | (2,380) |
| Balance at 31 December 2014 | 148,516 | 35,961 | 5,158 | 9,595 | 199,230 |
| Additions | 0 | 0 | 0 | 1,073 | 1,073 |
| Sales and disposals | 0 | 0 | (5,142) | (604) | (5,746) |
| Effect of movements in exchange rates | (615) | (5) | (16) | (76) | (712) |
| Balance at 31 December 2015 | 147,901 | 35,956 | 0 | 9,988 | 193,845 |
| Amortisation and impairment losses | | | | | |
| Balance at 1 January 2014 | 11,431 | 2,605 | 4,480 | 3,011 | 21,527 |
| Amortisation | 0 | 0 | 360 | 3,337 | 3,697 |
| Sales and disposals | 0 | 0 | 0 | (1,833) | (1,833) |
| Effect of movements in exchange rates | 0 | 0 | (39) | (95) | (134) |
| Balance at 31 December 2014 | 11,431 | 2,605 | 4,801 | 4,420 | 23,257 |
| Amortisation | 0 | 0 | 355 | 3,325 | 3,680 |
| Sales and disposals | 0 | 0 | (5,142) | (604) | (5,746) |
| Effect of movements in exchange rates | 0 | 0 | (14) | (26) | (40) |
| Balance at 31 December 2015 | 11,431 | 2,605 | 0 | 7,115 | 21,151 |
| Carrying amounts | | | | | |
| At 1 January 2014 | 139,215 | 33,380 | 722 | 6,359 | 179,676 |
| At 31 December 2014 | 137,085 | 33,356 | 357 | 5,175 | 175,973 |
| At 31 December 2015 | 136,470 | 33,351 | 0 | 2,873 | 172,694 |

16. Impairment test

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

| | 2015 | 2014 |
|------------------------------|-------------|-------------|
| Goodwill | 136,470 | 137,085 |
| Trademarks and airport slots | 33,351 | 33,356 |
| Total | 169,821 | 170,441 |

The decrease in the carrying amount of goodwill is due to translation differences of subsidiaries with functional currencies other than USD.

For the purpose of impairment testing, goodwill is allocated to the units which represent the level within the Group at which the goodwill is monitored for internal management purposes. The aggregate carrying amounts of goodwill allocated to each cash generated unit (CGU) are as follows:

| | Goodwill | | Trademarks and slots | |
|------------------|-----------------|-------------|-----------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Route network | 134,541 | 134,933 | 33,351 | 33,356 |
| Tourism services | 1,929 | 2,152 | 0 | 0 |
| Total goodwill | 136,470 | 137,085 | 33,351 | 33,356 |

The recoverable amounts of cash-generating units was based on their value in use and were determined by discounting the future cash flows generated from the continuing use of the CGU. Cash flows were projected based on actual operating results and a 5–10 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.

Notes, continued:

16. continued:

The values assigned to the key assumptions represent management's assessment of future trends in the airline, transportation and the tourism industry and are based on both external and internal sources (historical data). Value in use was based on the following key assumptions:

| | Route network | | Tourism services | |
|------------------------------------|---------------|------------|------------------|-------|
| | 2015 | 2014 | 2015 | 2014 |
| Long term growth rate | 2.5–4.0% | 2.5–4.0% | 4.0% | 4.0% |
| Revenue growth: | | | | |
| Weighted average 2015 / 2014 | 3.0% | 5.8% | 23.2% | 15.4% |
| 2015–2025 / 2014–2024 | 9.0% | 6.9% | 12.4% | 11.7% |
| Budgeted EBITDA growth | 4.2% | 8.9% | 28.0% | 14.0% |
| WACC | 8.2–12.8% | 8.3–13.6% | 10.9% | 11.0% |
| Debt leverage | 10.2–53.2% | 10.2–56.1% | 19.1% | 21.2% |
| Interest rate for debt | 5.1–7.8% | 5.5–7.7% | 4.4% | 4.2% |

The recoverable amount of the cash-generating units was estimated to be higher than its carrying amount and no impairment was required.

17. Investment in associates

The Group has interests in number of associates. The carrying amount and share of profit or (loss) of the associates is as follows:

| | 2015 | 2014 |
|--|--------|---------|
| Carrying amount of interests in associates | 18,223 | 2,324 |
| Share of profit (loss) from operation | 459 | (216) |

In August 2015 Icelandair Group acquired 50% shareholding in the real estate company Lindarvatn ehf. from Dalsnes ehf., which owns the remaining shares. At the same time Icelandair Hotels, a subsidiary of Icelandair Group, and Lindarvatn ehf. entered into a lease agreement for the term of 25 years for the operation of a high quality hotel located in the former headquarters of Landssiminn near Austurvöllur. The new hotel, which has not been named yet, will offer 160 hotel rooms but the brand of the hotel is still undecided. The hotel is expected to open in 2017.

Lindarvatn ehf. is the owner of the property and other properties located near Austurvöllur. In total the properties are 15.000 square meters but the new hotel is expected to be 11.000 square meters.

18. Deferred cost

Deferred cost consists of prepaid lease on housing and amounts paid for engine overhauls and heavy maintenance of leased aircraft which will be expensed over the lease period of the aircraft. Deferred cost is specified as follows:

| | 2015 | 2014 |
|--|------------|------------|
| Deferred cost | 405 | 237 |
| Current portion, classified as prepayments among receivables | (287) | (84) |
| Total deferred cost | <u>118</u> | <u>153</u> |

Deferred cost will be expensed as follows:

| | | |
|---|------------|------------|
| Expensed in 2015 | - | 84 |
| Expensed in 2016 | 287 | 47 |
| Expensed in 2017 | 63 | 51 |
| Expensed in 2018 | 55 | 55 |
| Total deferred cost, including current maturities | <u>405</u> | <u>237</u> |

Notes, continued:

19. Non-current receivables and deposits

Non-current receivables consist of notes, deposits for aircraft and engine lease agreements and various other travel related security fees.

| | 2015 | 2014 |
|--|---------------|---------------|
| Non-current receivables and deposits are specified as follows: | | |
| Loans, effective interest rate 7% / 6% | 359 | 300 |
| Security deposits | 8,426 | 10,268 |
| Prepayments on aircraft purchases | 22,348 | 11,550 |
| | <u>31,133</u> | <u>22,118</u> |
| Current maturities | (3,659) | (5,705) |
| Non-current receivables and deposits total | <u>27,474</u> | <u>16,413</u> |

Contractual repayments are specified as follows:

| | | |
|--|---------------|---------------|
| Maturities in 2015 | – | 5,705 |
| Maturities in 2016 | 3,659 | 511 |
| Maturities in 2017 | 554 | 586 |
| Maturities in 2018 | 12,919 | 4,897 |
| Maturities in 2019 | 7,350 | 4,441 |
| Maturities in 2020 | 2,525 | 2,712 |
| Subsequent | 4,126 | 3,266 |
| Total non-current receivables and deposits, including current maturities | <u>31,133</u> | <u>22,118</u> |

Non-current receivables and deposits denominated in currencies other than the functional currency comprise USD 1.1 million (2014: USD 0.9 million).

20. Taxes

| Tax recognised in profit or loss | 2015 | 2014 |
|---|---------------|---------------|
| <i>Current tax expense</i> | | |
| Current year | 20,368 | 12,362 |
| | <u>20,368</u> | <u>12,362</u> |
| <i>Deferred tax expense</i> | | |
| Origination and reversal of temporary differences | 10,828 | 3,084 |
| Income tax difference from prior year | (2,238) | 0 |
| Exchange rate difference | 42 | 556 |
| | <u>8,632</u> | <u>3,640</u> |
| Total tax expense recognised in profit or loss | <u>29,000</u> | <u>16,002</u> |
| Tax expense from continuing operations | 29,000 | 15,483 |
| Tax expense from discontinued operations | 0 | 519 |
| | <u>29,000</u> | <u>16,002</u> |
| Tax recognised in other comprehensive income | | |
| Effective portion of changes in fair value of cash flow hedge | 30 | 5,940 |
| Exchange rate difference | (6) | 458 |
| Total tax recognised in other comprehensive income | <u>24</u> | <u>6,398</u> |

Reconciliation of effective tax rate

| | 2015 | | 2014 | |
|--|--------------|----------------|--------------|---------------|
| Profit before tax from continuing operations | | <u>140,223</u> | | <u>79,908</u> |
| Income tax according to current tax rate | 20.0% | 28,045 | 20.0% | 15,982 |
| Non-deductible expenses | 0.2% | 324 | 0.2% | 190 |
| Other items | 0.4% | 631 | (0.2%) | (170) |
| Effective tax rate | <u>20.6%</u> | <u>29,000</u> | <u>20.0%</u> | <u>16,002</u> |

Notes, continued:

20. continued:

Recognised deferred tax liabilities

Deferred tax liabilities are specified as follows:

| | 2015 | 2014 |
|---|---------------|---------------|
| Deferred tax liabilities 1 January | 24,681 | 27,995 |
| Exchange rate difference | (36) | (1,014) |
| Income tax recognised in profit or loss | 29,000 | 16,002 |
| Income tax recognised in other comprehensive income | (30) | (5,940) |
| Income tax difference from prior year | 2,238 | 0 |
| Income tax payable | (20,368) | (12,362) |
| Deferred tax liabilities 31 December | <u>35,485</u> | <u>24,681</u> |

Deferred tax liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|-------------------------------|--------------|--------------|-------------------|-------------------|-------------------|-------------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Operating assets | 0 | 0 | (40,170) | (29,810) | (40,170) | (29,810) |
| Intangible assets | 0 | 0 | (812) | (1,217) | (812) | (1,217) |
| Derivatives | 6,015 | 5,991 | 0 | 0 | 6,015 | 5,991 |
| Trade receivables | 132 | 199 | 0 | 0 | 132 | 199 |
| | <u>6,147</u> | <u>6,190</u> | <u>(40,982)</u> | <u>(31,027)</u> | <u>(34,835)</u> | <u>(24,837)</u> |
| Tax loss carry-forwards | 611 | 557 | 0 | 0 | 611 | 557 |
| Other items | 0 | 0 | (1,261) | (401) | (1,261) | (401) |
| Deferred income tax | <u>6,758</u> | <u>6,747</u> | <u>(42,243)</u> | <u>(31,428)</u> | <u>(35,485)</u> | <u>(24,681)</u> |

Movements in deferred tax balance during the year

| | 1 January | Recognised in profit or loss | Exchange rate difference | Recognised in other compre- hensive income and equity | |
|-------------------------------|-------------------|------------------------------------|--------------------------------|--|-------------------|
| | | | | 31 December | 31 December |
| 2015 | | | | | |
| Operating assets | (29,810) | (10,403) | 43 | 0 | (40,170) |
| Intangible assets | (1,217) | 412 | (7) | 0 | (812) |
| Derivatives | 5,991 | 0 | (6) | 30 | 6,015 |
| Trade receivables | 199 | (64) | (3) | 0 | 132 |
| Tax loss carry-forwards | 557 | 55 | (1) | 0 | 611 |
| Other items | (401) | (870) | 10 | 0 | (1,261) |
| | <u>(24,681)</u> | <u>(10,870)</u> | <u>36</u> | <u>30</u> | <u>(35,485)</u> |
| 2014 | | | | | |
| Operating assets | (26,173) | (4,273) | 636 | 0 | (29,810) |
| Intangible assets | (2,206) | 908 | 81 | 0 | (1,217) |
| Derivatives | 60 | 0 | (9) | 5,940 | 5,991 |
| Trade receivables | 661 | (464) | 2 | 0 | 199 |
| Tax loss carry-forwards | 0 | 580 | (23) | 0 | 557 |
| Other items | (337) | (391) | 327 | 0 | (401) |
| | <u>(27,995)</u> | <u>(3,640)</u> | <u>1,014</u> | <u>5,940</u> | <u>(24,681)</u> |

The tax calculations above do not take into consideration the effects of reassessment of taxes for prior years in the amount of USD 7.9 million. Further information on the reassessment is provided in note 38.

Notes, continued:

21. Inventories

Inventories are specified as follows:

| | 2015 | 2014 |
|-------------------------|---------------|---------------|
| Spare parts | 15,030 | 18,377 |
| Other inventories | 4,175 | 4,529 |
| Inventories total | <u>19,205</u> | <u>22,906</u> |

22. Trade and other receivables

Trade and other receivables are specified as follows:

| | | |
|---|----------------|---------------|
| Trade receivables | 66,449 | 60,532 |
| Prepayments | 3,716 | 3,662 |
| Restricted cash | 8,693 | 12,407 |
| Derivatives used for hedging | 3,104 | 2,016 |
| Current maturities of long term-receivables | 3,659 | 5,705 |
| Other receivables | 15,454 | 12,148 |
| Trade and other receivables total | <u>101,075</u> | <u>96,470</u> |

At year end trade receivables are presented net of an allowance for doubtful debts of USD 6.4 million (2014: USD 5.4 million).

Prepaid expenses which relate to subsequent periods amounted to USD 3.7 million (2014: USD 3.7 million) at year end. The prepayments consist mainly of insurance premiums, software licenses and prepaid leases.

Restricted cash is held in bank accounts pledged against credit cards, derivatives and tourism guarantees.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 31.

23. Short term investments

Short term investments at year end consist of securities listed on stock exchanges in Luxemburg and Iceland and fixed deposits. They are recognized at fair value at year end, based on market value.

24. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

| | 2015 | 2014 |
|---------------------------------------|----------------|----------------|
| Securities | 4,324 | 1,574 |
| Bank deposits | 189,912 | 182,866 |
| Cash on hand | 350 | 322 |
| Cash and cash equivalents total | <u>194,586</u> | <u>184,762</u> |

25. Equity**(i) Share capital**

The Company's share capital amounts to ISK 5.0 billion according to its Articles of Association. Shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share of one ISK.

The Company held treasury shares in the amount of ISK 25.0 million at year end 2015 (2014: ISK 25.0 million).

(ii) 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. The balance of the share premium account can be used to offset losses not covered by other reserves or to offset stock splits.

(iii) Other reserves

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The translation reserve comprises all currency differences arising from the translation of the financial statements of subsidiaries having functional currencies other than the Group, as well as from the translation of liabilities that hedge net investment.

Notes, continued:

25. continued:

Other reserves are specified as follows:

| | Hedging reserve | Translation reserve | Total reserves |
|--|--------------------|------------------------|-------------------|
| Balance 1 January 2014 | (108) | 31,814 | 31,706 |
| Currency translation differences | | (5,382) | (5,382) |
| Net loss on hedge of investment, net of tax | | (15) | (15) |
| Net investment hedge reclassified to profit or loss | | 719 | 719 |
| Effective portion of changes in fair value of cash flow hedges, net of tax | (23,833) | | (23,833) |
| Balance at 31 December 2014 | (23,941) | 27,136 | 3,195 |
| Currency translation differences | | (1,677) | (1,677) |
| Effective portion of changes in fair value of cash flow hedges, net of tax | (118) | | (118) |
| Balance at 31 December 2015 | (24,059) | 25,459 | 1,400 |

(iv) Dividend

The Board of Directors has approved to the following dividend policy: "The Company's goal is to declare 20-40% of annual net profit as dividend. Final decision on dividend payments will be based on the financial position of the Company, operating capital requirements and market conditions.

Dividend amounting to USD 17.9 million was paid to shareholders in the year 2015 (2014: USD 19.0 million).

The Board of Directors proposes a dividend payment to shareholders in 2016 of ISK 3.500 million, equal to USD 26.9 million, which represents 24% of profit for the year 2015.

26. 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 number of outstanding shares during the year. The calculation of diluted earnings per share is identical to basic earnings per share as no convertible notes or stock options have been issued.

| | 2015 | 2014 |
|--|-----------|-----------|
| Basic earnings per share: | | |
| Profit for the year attributable to equity holders of the parent company | 111,318 | 66,509 |
| Weighted average number of shares for the year | 4,974,540 | 4,974,540 |
| Basic earnings per share in US cent per share | 2.24 | 1.34 |
| Diluted earnings per share in US cent per share | 2.24 | 1.34 |
| Earnings per share from continuing operations: | | |
| Profit from continuing operations attributable to equity holders of parent company | 111,318 | 64,435 |
| Basic earnings per share in US cent per share | 2.24 | 1.30 |
| Diluted earnings per share in US cent per share | 2.24 | 1.30 |

27. 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. For more information about the Group's exposure to interest rate foreign currency and liquidity risk, see note 31.

Loans and borrowings are specified as follows:

| | | |
|--|------------|------------|
| Secured bank loans | 30,852 | 49,755 |
| Unsecured bonds | 34,678 | 12,179 |
| Total loans and borrowings | 65,530 | 61,934 |
| Current maturities | (10,143) | (12,263) |
| Total non-current loans and borrowings | 55,387 | 49,671 |

Current loans and borrowings are specified as follows:

| | | |
|---|--------|--------|
| Current maturities of non-current liabilities | 10,143 | 12,263 |
| Total loans and borrowings | 65,530 | 61,934 |

Notes, continued:

27. continued:

Terms and debt repayment schedule:

| | Currency | Nominal interest rates year end 2015 | Year of maturity | Total remaining balance 2015 | 2014 |
|--|----------|--|---------------------|---------------------------------|---------------|
| Secured bank loans | USD | 4.8% | 2017–2022 | 29,256 | 47,974 |
| Secured bank loans | ISK | 7.4% | 2023 | 870 | 968 |
| Secured bank loans, indexed | ISK | 6.3% | 2021–2028 | 726 | 813 |
| Unsecured bond issue | USD | 4.3% | 2020 | 23,596 | 0 |
| Unsecured bond issue, indexed | ISK | 5.7% | 2023 | 11,082 | 12,179 |
| Total interest bearing liabilities | | | | <u>65,530</u> | <u>61,934</u> |
| Repayments of loans and borrowings are specified as follows: | | | | | |
| Repayments in 2015 | | | | – | 12,263 |
| Repayments in 2016 | | | | 10,143 | 12,684 |
| Repayments in 2017 | | | | 10,189 | 12,755 |
| Repayments in 2018 | | | | 5,524 | 8,125 |
| Repayments in 2019 | | | | 2,332 | 2,388 |
| Repayments in 2020 | | | | 26,118 | 2,459 |
| Subsequent repayments | | | | 11,224 | 11,260 |
| Total loans and borrowings | | | | <u>65,530</u> | <u>61,934</u> |

28. Non-current payables

Non-current payables correspond to accrued engine overhaul cost of leased aircraft and security deposits from lease contracts to be realized after 2016. Non-current obligations are specified as follows:

| | 2015 | 2014 |
|--|---------------|---------------|
| Non-current payables | 19,334 | 39,412 |
| Current portion, classified in trade and other payables | (10,690) | (31,121) |
| Total non-current payables | <u>8,644</u> | <u>8,291</u> |
| Non-current payables will be repaid as follows: | | |
| Repayments in 2015 | – | 31,121 |
| Repayments in 2016 | 10,690 | 2,212 |
| Repayments in 2017 | 3,255 | 1,123 |
| Repayments in 2018 | 2,454 | 2,481 |
| Repayments in 2019 | 1,199 | 800 |
| Repayments in 2020 | 736 | 675 |
| Subsequent repayments | 1,000 | 1,000 |
| Total non-current payables, including current maturities | <u>19,334</u> | <u>39,412</u> |

29. Trade and other payables

Trade and other payables are specified as follows:

| | | |
|---|----------------|----------------|
| Trade payables | 41,569 | 40,983 |
| Current portion of engine overhaul and security deposits from lease contracts | 10,690 | 31,121 |
| Derivatives used for hedging | 33,075 | 31,925 |
| Income tax payable | 20,368 | 12,362 |
| Other payables | 113,978 | 97,924 |
| Total trade and other payables | <u>219,680</u> | <u>214,315</u> |

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

Notes, continued:

30. 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.

Deferred income is specified as follows:

| | 2015 | 2014 |
|-----------------------------|----------------|----------------|
| Sold unused tickets | 158,958 | 148,346 |
| Frequent flyer points | 16,660 | 13,400 |
| Other prepayments | 10,491 | 13,198 |
| Total deferred income | <u>186,109</u> | <u>174,944</u> |

The amount allocated to 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 services for which the points, granted through a customer loyalty programme, can be redeemed takes into account the expected redemption rate and the timing of such expected redemptions. That amount is recognised as deferred income.

31. Financial risk management**Overview**

The Group has exposure to the following financial risks:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the risks above, the Group's objectives, policies, and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Company's Risk Management Committee is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Exposure to credit risk

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

| | Note | Carrying amount | |
|--|------|-----------------|----------------|
| | | 2015 | 2014 |
| Non-current receivables and deposits | 19 | 27,474 | 16,413 |
| Trade and other receivables | 22 | 97,358 | 92,808 |
| Short term investments | 23 | 19,533 | 30,879 |
| Cash and cash equivalents | 24 | <u>194,586</u> | <u>184,762</u> |
| | | <u>338,951</u> | <u>324,862</u> |

Notes, continued:

31. continued:

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Credit risk is linked to trade receivables, investment in liquid assets and agreements with financial institutions related to hedging. The relative spread of trade receivables across counterparties is also crucial for credit risk exposure. The risk involved is directly related to the fulfilment of outstanding obligations of the Group's counterparties. The Group is aware of potential losses related to credit risk exposure and chooses its counterparties subject to business experience.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

At year end 2015, the maximum exposure to credit risk for trade and other receivables by type of counterparty was as follows:

| | 2015 | 2014 |
|-------------------|----------------|---------------|
| Creditcards | 45,835 | 42,091 |
| Other | 55,240 | 54,379 |
| | <u>101,075</u> | <u>96,470</u> |

Impairment losses

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

| | Allowance for Gross Impairment | | Allowance for Gross Impairment | |
|-----------------------------|-----------------------------------|------------------|-----------------------------------|------------------|
| | 2015 | 2015 | 2014 | 2014 |
| Not past due | 47,888 | (397) | 54,876 | (315) |
| Past due 1–30 days | 14,224 | (102) | 2,830 | (117) |
| Past due 31–120 days | 4,360 | (586) | 3,081 | (457) |
| Past due 121–365 days | 1,370 | (627) | 615 | (409) |
| More than one year | 4,964 | (4,645) | 4,520 | (4,092) |
| Total | <u>72,806</u> | <u>(6,357)</u> | <u>65,922</u> | <u>(5,390)</u> |

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

| | 2015 | 2014 |
|--|--------------|--------------|
| Balance at 1 January | 5,390 | 11,909 |
| Impairment loss allowance, increase (decrease) | 1,785 | (1,766) |
| Amounts written off | (781) | (4,684) |
| Exchange rate difference | (37) | (69) |
| Balance at 31 December | <u>6,357</u> | <u>5,390</u> |

Based on historical default rates, the management believes that minimal impairment allowance is necessary in respect of trade receivables not past due or past due by 30 days; a significant part of the balance relates to customers that have a good track record with the Group.

The allowance account in respect of trade receivables is used to record impairment losses. If the Group believes that no recovery is possible the financial asset is written off directly.

Notes, continued:

31. continued:**Guarantees**

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. However at year end 2015 the Group is still guaranteeing from divested companies (see note 35), the PDP payments of one 787 Boeing Dreamliner order but the economical proceeds from these orders were sold to creditors in relation to the Group's financial restructuring in the year 2010.

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.

The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount of three months operating cost on average where 30% can be in the form of unused lines of credit.

The Company's management monitors its cash flow requirements by using rolling forecast and the liquidity management is based on projected cash flow in different currencies.

Following are the contractual maturities of financial liabilities at the reporting date, including estimated interest payments:

| 31 December 2015 | Carrying amount | Contractual cash flows | Within 12 months | 1–2 years | 2–5 years | More than 5 years |
|---|------------------------|-------------------------------|-------------------------|------------------|------------------|--------------------------|
| Non-derivative financial liabilities | | | | | | |
| Unsecured bank loans | 34,678 | 42,294 | 3,272 | 2,769 | 30,962 | 5,291 |
| Secured loans | 30,852 | 35,649 | 10,923 | 9,584 | 7,999 | 7,143 |
| Payables & prepayments | 228,324 | 228,324 | 219,680 | 3,255 | 4,389 | 1,000 |
| Exposure to liquidity risk | <u>293,854</u> | <u>306,267</u> | <u>233,875</u> | <u>15,608</u> | <u>43,350</u> | <u>13,434</u> |
| Derivative financial liabilities | | | | | | |
| Commodity derivatives | (33,075) | (33,215) | (33,215) | 0 | 0 | 0 |
| Forward exchange contracts | 3,333 | 5,183 | 5,183 | 0 | 0 | 0 |
| Exposure to liquidity risk | <u>(29,742)</u> | <u>(28,032)</u> | <u>(28,032)</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| 31 December 2014 | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Unsecured bond issue | 12,179 | 15,906 | 1,767 | 1,767 | 5,302 | 7,070 |
| Secured loans | 49,755 | 61,675 | 14,576 | 14,928 | 23,423 | 8,748 |
| Payables & prepayments | 222,606 | 222,606 | 214,145 | 2,381 | 4,405 | 1,675 |
| Exposure to liquidity risk | <u>284,540</u> | <u>300,187</u> | <u>230,488</u> | <u>19,076</u> | <u>33,130</u> | <u>17,493</u> |
| Derivative financial liabilities | | | | | | |
| Commodity derivatives | (33,782) | (33,994) | (33,994) | 0 | 0 | 0 |
| Forward exchange contracts | 1,187 | 1,193 | 1,193 | 0 | 0 | 0 |
| Exposure to liquidity risk | <u>(32,595)</u> | <u>(32,801)</u> | <u>(32,801)</u> | <u>0</u> | <u>0</u> | <u>0</u> |

Unused unsecured credit lines at year end 2015 amounted to USD 73,9 million (2014: USD 3.9 million).

In addition to the liquidity exposure presented in the balance sheet the Group is exposed to off balance sheet liabilities. Further information on these liabilities is provided in note 33 and 36.

Notes, continued:

31. continued:**Market risk**

Market risk emerges from changes in market prices, such as foreign exchange rates, interest rates, carbon prices and fuel prices, as those changes will affect the Group's cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group uses spot and forward trading, swaps and options in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. The Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Fuel risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in the event of a substantial fall in the price of fuel. The current Group strategy as reflected in the policy is to hedge between 40% and 60% of fuel consumption 12 months forward. In implementing the strategy, the hedge programme allows for a number of derivatives with approved counterparties and within approved limits. At year end, 60% of an estimated 12 months exposure of 325 k M.tonnes was hedged with swaps.

Sensitivity analysis

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

| | Effect on equity | | Effect on profit before tax | |
|--------------------------------------|------------------|------------|-----------------------------|------|
| | 2015 | 2014 | 2015 | 2014 |
| Increase in fuel prices by 10% | 7,126 | 10,980 | 0 | 0 |
| Decrease in fuel prices by 10% | (7,126) | (10,980) | 0 | 0 |

Currency risk

The Group is exposed to currency risk on sales, purchases, trade and other receivables, short term investments, cash and cash equivalents, secured bank loans and trade payables that are denominated in a currency other than the respective functional currencies of Group entities.

The Group seeks to reduce its foreign exchange exposure arising from currency mismatch in the cashflow by netting receipts and payments in each individual currency and by internal trading within the Group. The shortfall of USD and ISK are financed by a surplus of European currencies, most importantly EUR and Scandinavian currencies but also GBP and CAD. The exposure is hedged 50–80% 9–12 months forward with spot and forward contracts.

Exposure to currency risk

The Group's exposure to currency risk in its major currencies is as follows:

| 2015 | ISK | EUR | GBP | DKK | SEK | CAD |
|--|-------------|-------------|------------|------------|------------|------------|
| Receivables / payables, net | (68.709) | 16.173 | (14.926) | (3.396) | (4.512) | (10.057) |
| Cash and cash equivalents | 16.339 | 19.487 | 9.337 | 1.449 | 5.990 | 14.637 |
| Secured bank loans | (11.082) | (41.391) | 0 | 0 | 0 | 0 |
| Forward exchange contracts | 54.054 | (45.748) | (14.820) | 0 | (11.862) | (14.040) |
| Net balance sheet exposure | (9.398) | (51.479) | (20.409) | (1.947) | (10.384) | (9.460) |
| Next 12 months forecast sales | 273.482 | 221.278 | 82.080 | 18.793 | 40.847 | 27.688 |
| Next 12 months forecast purchase | (358.773) | (122.137) | (3.317) | (10.094) | (5.954) | (19.443) |
| Net 12 months currency exposure | (94.689) | 47.662 | 58.354 | 6.752 | 24.509 | (1.215) |
| 2014 | | | | | | |
| Receivables / payables, net | 3.398 | (28.807) | (13.686) | (3.754) | (3.974) | (10.008) |
| Cash and cash equivalents | (5.017) | 22.982 | 1.726 | 3.446 | 3.015 | 17.446 |
| Secured bank loans | (12.179) | 0 | 0 | 0 | 0 | 0 |
| Forward exchange contracts | 42.416 | (46.800) | (4.622) | 0 | 0 | (12.584) |
| Net balance sheet exposure | 28.618 | (52.625) | (16.582) | (308) | (959) | (5.146) |
| Next 12 months forecast sales | 326.050 | 263.390 | 75.216 | 40.281 | 37.009 | 65.105 |
| Next 12 months forecast purchase | (443.990) | (161.437) | (45.781) | (17.727) | (3.806) | (15.705) |
| Net 12 months currency exposure | (89.322) | 49.328 | 12.853 | 22.246 | 32.244 | 44.254 |

Notes, continued:

31. continued:

The following significant exchange rates of USD applied during the year:

| | Average rate | | Year-end spot rate | |
|-----------|--------------|--------|--------------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| ISK | 0.0076 | 0.0085 | 0.0077 | 0.0079 |
| EUR | 1.11 | 1.33 | 1.09 | 1.22 |
| GBP | 1.53 | 1.65 | 1.48 | 1.56 |
| CAD | 0.78 | 0.91 | 0.72 | 0.86 |
| DKK | 0.15 | 0.18 | 0.15 | 0.16 |
| SEK | 0.12 | 0.15 | 0.12 | 0.13 |

Sensitivity analysis

A 10% strengthening of the USD against the following currencies at 31 December would have increased (decreased) post-tax equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | Equity | Profit or loss |
|-------------|-----------|----------------|
| 2015 | | |
| ISK | 752 | 5,076 |
| EUR | 4,118 | 458 |
| GBP | 1,633 | 447 |
| DKK | 156 | 156 |
| SEK | 831 | (118) |
| CAD | 757 | (366) |
| 2014 | | |
| ISK | (2,289) | 1,104 |
| EUR | 4,210 | 466 |
| GBP | 1,327 | 957 |
| DKK | 25 | 25 |
| SEK | 77 | 77 |
| CAD | 412 | (595) |

A 10% weakening of the USD against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The fair value of a fixed rate instrument will fluctuate because of changes in market interest rates. The cash flow of variable rate instruments will also fluctuate with changes in market interest rates. The Group follows a policy of hedging 40–80% of the net interest rate cash flow exposure of long-term financing with up to a 5-year horizon. This is achieved by using fixed rate loan and fixed for floating swap contracts

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was as follows:

| | Carrying amount | |
|----------------------------------|-------------------|-------------------|
| | 2015 | 2014 |
| <i>Fixed rate instruments</i> | | |
| Financial assets | 2,945 | 2,864 |
| | <u>2,945</u> | <u>2,864</u> |
| Effect of derivatives | (29,742) | (32,595) |
| | <u>(26,797)</u> | <u>(29,731)</u> |
| <i>Variable rate instruments</i> | | |
| Financial assets | 189,912 | 182,866 |
| Financial liabilities | (22,005) | (36,264) |
| | <u>167,907</u> | <u>146,602</u> |

Notes, continued:

31. continued:*Fair value sensitivity analysis for fixed rate instruments*

The Group does designate derivatives for the purpose of fuel, fx and interest rate hedging as hedging instruments under a fair value hedge accounting model. Interest rate changes affect the fixed rate instruments carrying amount through equity.

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts stated below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

| | 100 bp increase | 100 bp decrease |
|------------------------------------|----------------------------|----------------------------|
| 31 December 2015 | | |
| Fixed rate instruments | (72) | 75 |
| Effects of derivatives | 148 | (150) |
| Fair value sensitivity (net) | <u>76</u> | <u>(75)</u> |
| 31 December 2014 | | |
| Fixed rate instruments | (26) | 26 |
| Effects of derivatives | 425 | (164) |
| Fair value sensitivity (net) | <u>399</u> | <u>(138)</u> |

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts stated below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

| | 100 bp increase | 100 bp decrease |
|-----------------------------------|----------------------------|----------------------------|
| 31 December 2015 | | |
| Variable rate instruments | 1,679 | (1,679) |
| Cash flow sensitivity (net) | <u>1,679</u> | <u>(1,679)</u> |
| 31 December 2014 | | |
| Variable rate instruments | 1,466 | (1,466) |
| Cash flow sensitivity (net) | <u>1,466</u> | <u>(1,466)</u> |

Capital management

The Board's policy is to maintain a strong capital base for the benefit of investor, creditor and market confidence and to sustain future development of the business. The policy is to hold in cash and other highly liquid assets the equivalent of three months operating cost of which 30% of the benchmark can be in the form of unused lines of credit. Furthermore according to the policy the equity ratio shall be no less than 35%.

32. Financial instruments and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| | Carrying amount 2015 | Fair value 2015 | Carrying amount 2014 | Fair value 2014 |
|---|-------------------------------------|----------------------------|-------------------------------------|----------------------------|
| Derivatives, included in loans and receivables | 3,104 | 3,104 | 2,016 | 2,016 |
| Short term investments | 19,533 | 19,533 | 30,879 | 30,879 |
| Unsecured bond issue | (34,678) | (33,438) | (12,179) | (12,479) |
| Secured loans | (30,852) | (30,769) | (49,755) | (52,092) |
| Derivatives, included in payables and prepayments | (33,075) | (33,075) | (31,925) | (31,925) |
| Total | <u>(75,968)</u> | <u>(74,645)</u> | <u>(60,964)</u> | <u>(63,601)</u> |

Notes, continued:

32. continued:**Fair value hierarchy:**

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---------------|-------------------|-------------------|-------------------|
| 31 December 2015 | | | | |
| Derivatives, included in loans and receivables | | 3,104 | | 3,104 |
| Short term investments | 19,533 | | | 19,533 |
| Unsecured bond issue | | | (33,438) | (33,438) |
| Secured loans | | | (30,769) | (30,769) |
| Derivatives, included in payables and prepayments | | (33,075) | | (33,075) |
| Total | <u>19,533</u> | <u>(29,971)</u> | <u>(64,207)</u> | <u>(74,645)</u> |
| 31 December 2014 | | | | |
| Derivatives, included in loans and receivables | | 2,016 | | 2,016 |
| Short term investments | 30,879 | | | 30,879 |
| Unsecured bond issue | | | (12,479) | (12,479) |
| Secured loans | | | (52,092) | (52,092) |
| Derivatives, included in payables and prepayments | | (31,925) | | (31,925) |
| Total | <u>30,879</u> | <u>(29,909)</u> | <u>(64,571)</u> | <u>(63,601)</u> |

The basis for determining the levels is disclosed in note 4.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate based on government bonds.

The fair value of interest rate swaps is based on broker quotes. If not available the fair value is based on the discounted cashflow difference of the contractual fixed interest payment and the floating interest receivable.

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

33. Off-balance sheet items**Leases as lessee**

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 as also in place operating leases for aircraft which last from 5,5 months to 5,5 years. During the year USD 35.0 million was recognised as an expense in profit or loss in respect of operating leases (2014: USD 39.1 million). At year end 2015 the leases are payable as follows in nominal amounts for each year:

| | Real estate | Aircraft | Other | Total 2015 | Total 2014 |
|------------------------|----------------|---------------|---------------|----------------|----------------|
| In the year 2015 | – | – | – | – | 39,635 |
| In the year 2016 | 14,813 | 19,688 | 6,111 | 40,612 | 33,061 |
| In the year 2017 | 16,522 | 15,663 | 1,968 | 34,153 | 28,814 |
| In the year 2018 | 21,017 | 13,761 | 2,249 | 37,027 | 25,963 |
| In the year 2019 | 20,778 | 7,560 | 2,242 | 30,580 | 19,663 |
| In the year 2020 | 20,871 | 6,160 | 2,298 | 29,329 | 18,507 |
| Subsequent | 277,594 | 1,530 | 33,520 | 312,644 | 157,626 |
| Total | <u>371,595</u> | <u>64,362</u> | <u>48,388</u> | <u>484,345</u> | <u>323,269</u> |

The aircraft lease payments consist of ordinary lease payments not maintenance reserves.

Notes, continued:

34. Leases as lessor

As a lessor the Company leases aircraft on wet, dry and other various leases, both on short and long term leases. Lease income for the year 2015 amounted to USD 83.4 million (2014; USD 74.8 million). Contracted leases at year end were as follows:

| | 2015 | 2014 |
|------------------------|----------------|----------------|
| In the year 2015 | – | 63,987 |
| In the year 2016 | 63,274 | 55,190 |
| In the year 2017 | 51,619 | 51,619 |
| In the year 2018 | 51,511 | 51,511 |
| In the year 2019 | 19,777 | 19,777 |
| In the year 2020 | 13,559 | 13,559 |
| Subsequent | 5,152 | 5,152 |
| Total | <u>204,892</u> | <u>260,795</u> |

35. 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, assets amounting to USD 59.1 million were divested to its creditors. Icelandair Group guarantees that the final sales price will be at least USD 30.8 million (ISK 4.0 billion), however the maximum guarantee is USD 3.8 million (ISK 0.5 billion). Based on the managements estimate the Company has fully provided for potential losses due to the guarantee.

36. 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 | <u>3</u> | <u>6</u> | <u>5</u> | <u>2</u> |

Notes, continued:

37. 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 service to Group companies and the number of shares in the Company held by management are specified below. Salaries and benefits are presented in ISK, rounded to nearest thousand.

| | 2015 Salaries and benefits ISK | Number of shares held at year-end 2015 in thousands | 2014 Salaries and benefits ISK | Number of shares held at year-end 2014 in thousands |
|--|--|---|--|---|
| Board of Directors: | | | | |
| Sigurður Helgason, Chairman of the Board | 8,100 | 14,000 | 8,100 | 14,000 |
| Ásthildur Margrét Otharsdóttir | 4,500 | | 4,500 | |
| Katrín Olga Jóhannesdóttir | 6,000 | 413 | 6,000 | 413 |
| Magnús Magnússon | 4,500 | | 2,875 | |
| Úlfar Steindórsson | 6,150 | | 6,150 | |
| Elín Jónsdóttir, former board member | 0 | | 1,702 | |
| Herdís Dröfn Fjeldsted, former board member | 0 | | 1,325 * | |
| Key employees: | | | | |
| Björgólfur Jóhannsson CEO of Icelandair Group hf. | 53,619 | 1,300 | 45,833 | 1,300 |
| Bogi Nils Bogason, CFO of Icelandair Group hf. | 40,580 | 1,000 | 39,795 | 1,000 |
| Birkir Hólm Guðnason, CEO of Icelandair ehf. | 40,923 | | 39,415 | |
| Seven MD's of Group companies | 191,678 | 5,111 | 192,556 | 7,111 |

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

*The salary of one board member was paid to Framtakssjóður Íslands slhf.

Transaction with associates

During the year 2015 the Group purchased services from associates for USD 0.1 million (2014: USD 0.1 million). The Group's revenues were USD 0.1 million from associates (2014: USD 0.1 million). Transactions with associates are priced on an arm's length basis.

Transaction with shareholders

There are no shareholders with significant influence at year end 2015. Companies which members of the Board and key employees control have been identified as being thirteen. These companies have been identified as related. Transactions with them consist of purchase and sale of services in the ordinary course of business on an arm's length basis. Total purchases in 2015 from these entities amounted to USD 0.1 million (2014: USD 0.1 million). Total sales amounted to USD 0.1 million (2014: USD 0.1 million).

38. 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.

39. Litigations and claims

The Icelandic Competition Authority (ICA) has recently been investigating Icelandair's alleged predatory pricing in 2012-13 which could be considered as a breach of Article 11 of the Icelandic Competition Act. If the investigation will conclude that Icelandair had a dominant position in the market, and abused its position by predatory pricing, the ICA could lay an administrative fine on Icelandair for the alleged breach of the Competition Act. The ICA's decision may be appealed to the Icelandic Competition Appeals Committee. The management of the Company considers that Icelandair's pricing in 2012-13 was fully compliant with the Competition Act.

Notes, continued:

40. Group entities

The Company held eleven subsidiaries at year end 2015 which are all included in the consolidated financial statements. They are as follows:

| | Ownership interest | |
|--|---------------------------|-------------|
| | 2015 | 2014 |
| Route network: | | |
| Air Iceland ehf. | 100% | 100% |
| Feria ehf. | 100% | 100% |
| Fjárvakur – Icelandair Shared Services ehf. | 100% | 100% |
| Icelandair ehf. | 100% | 100% |
| Icelandair Cargo ehf. | 100% | 100% |
| IGS ehf. | 100% | 100% |
| Loftleiðir – Icelandic ehf. | 100% | 100% |
| Tourism services: | | |
| Iceland Travel ehf. | 100% | 100% |
| Icelandair Hotels ehf. | 100% | 100% |
| Other operation: | | |
| A320 ehf. | 100% | 100% |
| IceCap Ltd., Guernsey | 100% | 100% |

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

41. Statement of cash flows

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

| | 2015 | 2014 |
|---|---------------|---------------|
| Expensed deferred cost | 6,874 | 20,613 |
| Exchange rate difference and indexation of liabilities and assets | 562 | 3,823 |
| Gain on the sale of operating assets | (1,529) | (204) |
| Gain on sale of investments | 0 | (211) |
| Share of loss of associates | (459) | 216 |
| Income tax | 10,763 | (3,258) |
| Total other operating items in the statement of cash flows | <u>16,211</u> | <u>20,979</u> |

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

| | | |
|---|---------------|---------------|
| Inventories, decrease (increase) | 3,639 | (738) |
| Trade and other receivables, (increase) decrease | (3,948) | 6,633 |
| Trade and other payables, increase | 22,762 | 25,196 |
| Deferred income, increase | 11,423 | 21,417 |
| Net change in operating assets and liabilities in the statement of cash flows | <u>33,876</u> | <u>52,508</u> |
| Additional cash flow information: | | |
| Interest paid | 7,947 | 6,421 |
| Interest received | 2,849 | 2,213 |
| Taxes paid | 8,880 | 6,708 |

43. Ratios

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

| | | |
|--|-------|------|
| Current ratio | 0.80 | 0.83 |
| Equity ratio | 0.47 | 0.43 |
| Intrinsic value of share capital | 11.24 | 8.99 |

Notes, continued:

44. Significant accounting policies

The accounting policies set out in this note have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

a. Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated statements from the date on which control commences until the date on which control ceases. When the Group loses control over subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(ii) Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of associates, until the date on which significant influence ceases.

(iii) Transactions eliminated on consolidation

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

b. Currency exchange

(i) Currency transactions

Transactions in currencies other than functional currencies (foreign currencies) are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective (see (iii) below), or qualifying cash flow hedges to the extent the hedge is effective, which are recognised in other comprehensive income.

(ii) Subsidiaries with other functional currency

Assets and liabilities of foreign operations and subsidiaries with functional currency in other than USD, including goodwill and fair value adjustments arising on acquisitions, are translated to USD at exchange rates at the reporting date. Income and expenses are translated to USD at exchange rates at the dates of the transactions. Currency differences arising on translation are recognised in other comprehensive income. When an operation is disposed of, in part or in full, the relevant amount in the currency translation reserve within equity is transferred to profit or loss as part of the profit or loss on disposal.

Currency differences are recognised in other comprehensive income, and presented in the translation reserve in equity. However, if the operation is not a wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to the non-controlling interests.

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 subsidiary and the Company's functional currency (USD), regardless of whether the net investment is held directly or through an intermediate parent.

Notes, continued:

44. b. (iii) continued:

Currency differences arising on the translation of a financial liability designated as a hedge of a net investment in a subsidiary are recognised in other comprehensive income to the extent that the hedge is effective, and are presented in the translation reserve within equity. 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 gain or loss on disposal.

c. Financial instruments

(i) *Non-derivative financial assets*

The Group 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, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group 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 in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such derecognised financial assets that is created or retained by the Group 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 Group 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 Group 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 on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group'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 which takes into account any dividend income, are recognised in profit or loss.

Financial assets classified as held-for-trading comprise marketable securities actively managed by the Group's treasury department to address short-term liquidity needs.

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 restricted cash and cash equivalents and trade and other receivables

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits and marketable securities with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(ii) *Non-derivative financial liabilities*

The Group initially recognises debt securities issued 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, which is the date that the Group becomes a party to the contractual provisions of the instrument.

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

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less 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.

Notes, continued:

44. c. continued:

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Repurchase and reissue of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

(iv) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency, fuel price and interest rate risk exposures (see note 32). 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 derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that ultimately could affect reported profit or loss.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and 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 during which the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified in profit or loss.

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.

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.

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

Any gain and loss on disposal of an item of operating assets (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Notes, continued:

44. d. continued:**(ii) Aircraft and flight equipment**

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

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

(iv) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Items of operating assets are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component unless other systematic method is considered appropriate. Leased assets are depreciated over the shorter of the lease term or their useful lives. The estimated useful lives for the current and comparative periods are as follows:

| | Useful life |
|-------------------------------------|--------------------|
| Aircraft and flight equipment | 3–17 years |
| Engines | Cycles flown |
| Buildings | 17–50 years |
| Other property and equipment | 3–20 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

e. Intangible assets and goodwill**(i) Goodwill and other intangible assets with indefinite useful lives**

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

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

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

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

(ii) Other intangible assets

Other intangible assets acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and 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 years are as follows:

| | Useful life |
|-------------------------------|--------------------|
| Software | 3 years |
| Customer relations | 7–10 years |
| Other intangible assets | 6–10 years |

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes, continued:

44. e. continued:

(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. Leased assets

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

g. Inventories

Goods for resale and supplies are measured at the lower of cost and net realisable value. The cost of inventories is based on first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

h. Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events has occurred after the initial recognition of the asset, and that loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

Default or delinquency by a debtor;

Restructuring of an amount due to the Group on terms that the Group would not consider otherwise;

Indications that a debtor or issuer will enter bankruptcy;

Adverse changes in the payment status of borrowers or issuers;

The disappearance of an active market for a security because of financial difficulties; or

Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Goodwill and indefinite-lived intangibles assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

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

Notes, continued:

44. e. (ii) continued:

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. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

i. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Overhaul commitments relating to aircraft under operating 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 profit or loss calculated by reference to the number of hours or cycles operated.

Provisions are entered into the statement of financial position among non-current and current payables, as applicable.

j. 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.

k. 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. Non-refundable documents are recognized as revenue two months after expected transport if not used. Revenue from mail and cargo transportation is recognised when transportation has been provided.

(ii) Customer loyalty programmes

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits (frequent flyer points) and 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.

(iii) Aircraft and aircrew lease

Revenue from aircraft and aircrew lease is recognised in profit or loss when the service has been provided.

(iv) Other operating revenue

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

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

Notes, continued:

44. continued:

I. Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

m. 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.

n. 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 as either finance income or finance cost depending on whether currency movements are in a net gain or net loss position.

o. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax comprises the expected tax payable on the taxable income for the year. It is measured using tax rates enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that do not affect accounting, or taxable profit or differences relating to investment in subsidiaries.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date.

p. 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.

Notes, continued:

44. continued:

q. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The major revenue-earning assets of the Group is the aircraft fleet, the majority of which is registered in Iceland. Since the Group's aircraft fleet is employed flexibly across its route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

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

Segment results, reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, and income tax assets and liabilities.

45. Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2015 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

In January 2016, the IASB issued IFRS 16 Leases - realising its long-standing goal of bringing leases on-balance sheet for lessees. The new standard takes effect in January 2019. Early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted. IFRS 16 will have substantial effect on the Group's balance sheet as all leasing commitments exceeding 12 months will be recognized in the balance sheet at a discounted value.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9, IFRS 15 and IFRS 16. In addition a number of new or amended standards are effective for annual periods beginning after 1 January 2015 but are not expected to have a significant impact on the Group's consolidated financial statements.

Corporate Governance Statement

The Framework

The Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers, along with the Company's Articles of Association, and Rules for Issuers of Securities listed on the NASDAQ OMX Iceland, make up the framework for Icelandair Group's Corporate Governance practices. The Company's Articles of Association are accessible on the Company's website and the Guidelines and Rules for Issuers can be accessed on the NASDAQ OMX Iceland website.

The Company complies in all main respects with the rules cited above. However, the Company does not have a Nomination Committee, as the Board of Directors has not seen any need for such a committee. No government organisation has found the Company to be in breach of any rule or regulation regarding corporate governance.

In 2013 the Iceland Chamber of Commerce, the Confederation for Icelandic Employers and Nasdaq OMX Iceland hf. recognised the Company as "Exemplary in corporate governance". The aim of the award is to enhance the credibility and transparency of Icelandic companies' corporate governance with respect to shareholders and other stakeholders.

Internal Audit and Risk Management

The Group's Audit Committee oversees the manner in which management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The committee is charged with overseeing the Group's consolidated accounts. The committee is also responsible for evaluation of the independence and eligibility of both the Company's auditor and auditing firm and for submitting recommendations to the Board of Directors regarding the selection of the Company's auditor. The Audit Committee held nine meetings in 2015.

Values, Code of Ethics and Corporate Responsibility

The Company's values are:

WE CARE for our customers, employees, environment and shareholders;

WE THINK CLIENTS through consistency, reliability, clear product alternatives and friendly service;

WE DRIVE RESULTS via teamwork, shared information and values, accountability and profitability.

On 25 May 2009 the Board of Directors approved a Code of Ethics, which was subsequently amended on 5 January 2011. The Code of Ethics is accessible to all Company employees through the Company's intranet, MyWork.

Compensation Committee

The purpose of the Compensation Committee is to prevent the Company's management from being placed in control of their own remuneration and to ensure that management remuneration is structured so as to serve the long-term interests of shareholders. The main tasks of the Compensation Committee are policy making with respect to management's performance and related bonuses, including stock options. The Committee conducts evaluations of management remuneration and monitors management's acquisition of stock in the Company. The Compensation Committee meets on average four times a year.

Compensation Committee:

Sigurður Helgason, Chairman

Úlfar Steindórsson

Corporate Governance Statement, continued:

The Board of Directors and Executive Committee

Board of Directors

Sigurður Helgason, Chairman

Sigurður Helgason was President & CEO of Flugleidir/Icelandair 1985–2005. He was Director Cash Management 1974–1980, Senior Vice-President Finance 1980–1983, General Manager The Americas 1983–1985 at Flugleidir/Icelandair. He was a member of the IATA Board of Governors 2004/2005. He was a Member of the Board of Directors at Finnair 2007–2012. He was Chairman of the Board of The Icelandic International Development Agency 2005–2008. He has been Chairman of the Icelandair Special Children Travel Fund since 2005. He has served on various boards of Icelandic business enterprises since 1974. He graduated with an MBA degree from the University of North Carolina, Chapel Hill, USA, in 1973 and completed a Cand. Oecon. degree at the University of Iceland in 1971. He joined the Board on 6 August 2009.

Úlfar Steindórsson, Deputy Chairman

Úlfar Steindórsson was born in 1956 and is CEO and Chairman of Toyota in Iceland ehf. and Jú ehf. He was CEO of Primex ehf. in Siglufjordur from 2002–2004, and CEO of the New Business Venture Fund from 1999–2002. Úlfar is Chairman of the Board of Eignarhaldsfélagið Bifreiðar ehf., Bifreiðainnflutningur ehf., Bílaútleigan ehf., Okkar bílaleiga ehf. and TK bílar ehf. He is a Board member of Toyota á Íslandi ehf., Króksslóð ehf., TMH Iceland ehf., AB 257 ehf., UK fjárfestingar ehf., Johan Rönning hf., S. Guðjónsson ehf., Skorri ehf., My Car ehf. and UK fjárfestingar ehf. Úlfar holds a Cand. Oecon degree from the University of Iceland and an MBA from Virginia Commonwealth University. He joined the Board on 15 September 2010.

Ásthildur M. Otharsdóttir, Board Member

Ásthildur was born in 1968 and is an independent management consultant with prior business experience as Global Director of Treasury and Corporate Development at Össur hf., Senior Account Manager at Kaupthing Bank hf. and Management Consultant at Accenture in Copenhagen. She is the Chairman of the Board of Directors of Marel hf. and Frumtak 2 Venture Fund. Ásthildur is a member of the Board of Directors of Marorka ehf., the Research Centre for Business Ethics at the University of Iceland and the Court of Arbitration of the Icelandic Chamber of Commerce. Ásthildur has an MBA degree from the Rotterdam School of Management, Erasmus University, and a Cand. Oecon degree from the University of Iceland. She joined the Board on 23 March 2012.

Katrín Olga Jóhannesdóttir, Board Member

Katrín Olga Jóhannesdóttir was born in 1962 and is the former Chief Strategy Officer of Skipti hf. and the current Chairman of the Board of Já hf., where she is a shareholder. Before that she was VP for sales and marketing and VP for residential markets at Síminn hf. Prior to that she held a position as the Managing Director of Navision Iceland and was a management consultant at VSO. Katrín Olga currently serves on the boards of directors of Ölgerðin hf. and Njála ehf., having previously served on the boards of the Central Bank of Iceland, Sirius IT and SkjáMiðlar. She was elected Chairman of the Iceland Chamber of Commerce in February 2016. She holds a Cand. Oecon degree from the University of Iceland and an M.Sc. in Business Economics from Odense University. She joined the Board on 6 August 2009.

Magnús Magnússon, Board Member

Magnús was born in 1965 and been employed as a division manager at LBI hf. since early 2009, having previously worked for Búnadarbankinn and the financing company Lýsing hf. following a period of self-employment from 2003 to year-end 2008. Magnús currently serves on the boards of directors of Lýsi hf. and the manufacturing and contracting company Loftorka in Borgarnes, as well as several subsidiaries of LBI hf. Magnús holds a degree in business economics from the University of Iceland and a Masters Degree in international business from Norges Handelshøyskole. Magnús has been a reserve member of Icelandair Group's Board of Directors from 2009–2014 and a full member of the Board since 1 August 2014.

Corporate Governance Statement, continued:

Executive committee

Björgólfur Jóhannsson, president and CEO

Björgólfur was born in 1955 and before joining Icelandair Group he was CEO of Icelandic Group, an international seafood company, from March 2006. Between 1992–1996 he was CFO of UA in Akureyri. He became CEO of Síldarvinnslan, a fisheries and fish processing enterprise, in 1999 and served as Director of Innovation and Development at the fisheries company Samherji from 1996, having worked as an accountant for two auditing firms from 1980. Björgólfur served as Chairman of the Board of the Federation of Icelandic Fishing Vessel Owners from 2003–2008. He was elected Chairman of the Confederation of Icelandic Employers in March 2013. He graduated with a degree in Business Administration from the University of Iceland in 1983 and qualified as a chartered accountant in 1985.

Bogi Nils Bogason, CFO, Icelandair Group

Birkir Hólm Guðnason, CEO, Icelandair

Magnea Thórey Hjálmarsdóttir, Managing Director, Icelandair Hotels

The Company's Board of Directors exercises the supreme authority in the Company's affairs between shareholders' meetings, and is entrusted with the task of ensuring that the organisation and activities of the Company's operation are at all times in correct and proper order.

The Board of Directors is instructed in the Company's Articles of Association to appoint a President and CEO for the Company and decide on the terms of his or her employment. The Board of Directors and President and CEO are responsible for the management of the Company.

The Company's Board of Directors must at all times ensure adequate supervision of the Company's accounts and secure safeguarding of its assets and shall adopt working procedures in compliance with the Companies Act. Only the Board of Directors may assign powers of procurement on behalf of the Company. The signatures of the majority of the members of the Board are required to bind the Company. The President and CEO has charge of the day-to-day operation of the Company and is required in his work to observe the policy and instructions set out by the Company's Board of Directors. Day-to-day operation does not include measures which are unusual or extraordinary. Such measures can only be taken by the President and CEO with the specific authorisation of the Board of Directors, unless it is impossible to await the decision of the Board without seriously disadvantaging the operation of the Company. In such instances the President and CEO is required to consult with the Chairman of the Board, if possible, after which the Board of Directors must immediately be notified of the measures. The President and CEO shall ensure that the accounts and finances of the Company conform to the law and accepted practices and that all assets belonging to the Company are securely safeguarded. The President and CEO is required to provide the members of the Board of Directors and Company auditors with any information pertaining to the operation of the Company which they may request, as required by law.

The Company's Board of Directors consists of five members elected at the annual general meeting for a term of one year. Those who intend to stand for election to the Board of Directors must inform the Board in writing of their intention at least five days before the annual general meeting, or extraordinary shareholders' meeting at which elections are scheduled. Only those who have informed the Board of their candidacy are eligible.

The Board of Directors elects a Chairman and Deputy Chairman from its members and otherwise allocates its duties among its members as needed. The Chairman calls Board meetings. A meeting must also be held if requested by a member of the Board of Directors or the President and CEO. Meetings of the Board are valid if attended by a majority of its members. However, important decisions shall not be taken unless all members of the Board have had an opportunity to discuss the matter, if possible. The outcome of issues is decided by force of vote, and in the event of an equality of votes a motion is regarded as rejected. The President and CEO attends meetings of the Board of Directors, even if he or she is not a member of the Board, and has the right to participate in discussions and submit proposals unless otherwise decided by the Board in individual cases. A book of minutes is kept of proceedings at meetings and must be signed by participants in the meeting. A Board member who disagrees with a decision made by the Board of Directors is entitled to have his or her dissenting opinion entered in the book of minutes. The same

Corporate Governance Statement, continued:

applies to the President and CEO. The Chairman is responsible for the Board's relations with shareholders and shall inform the Board of views expressed by shareholders.

On 12 September 2007 the Board of Directors approved Rules on Working Procedures for the Board of Directors, which were last amended on 8 February 2016. The Rules on Working Procedures are accessible to the Board of Directors and management through the Board's intranet. In accordance with article 14 of the Rules on Working Procedures the Board of Directors must annually evaluate its own work, number of members, composition and practices, and must also evaluate the performance of the President and CEO and others responsible for the day-to-day management of the Company and its development. The annual performance assessment is intended to improve working methods and increase the efficiency of the Board. The assessment includes evaluation of the strengths and weaknesses of the Board's work and practices and takes into consideration work components where the Board believes there is room for improvement.

The Board of Directors elects the members of two sub-committees: the Compensation Committee and the Audit Committee. The sub-committees are subject to the Rules on Working Procedures. The Board of Directors met eighteen times over the year with full participation at almost all meetings. All the members of the Board of Directors are independent of the Company with the exception of Ásthildur Margrét Otharsdóttir. All Board members were independent of the Company's major shareholders in 2015.

Quarterly statements (unaudited)

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

| Year 2015 | Q1 | Q2 | Q3 | Q4 | Total |
|--|-------------------|---------------|----------------|-------------------|----------------|
| Operating income | 186,075 | 294,212 | 429,446 | 229,966 | 1,139,699 |
| Operating expenses without depreciation | (188,343) | (243,947) | (278,571) | (209,856) | (920,717) |
| Operating (loss) profit before depreciation (EBITDA) | (2,268) | 50,265 | 150,875 | 20,110 | 218,982 |
| Depreciation | (17,011) | (21,872) | (23,869) | (21,074) | (83,826) |
| Operating (loss) profit (EBIT) | (19,279) | 28,393 | 127,006 | (964) | 135,156 |
| Net finance income (expense) | 885 | (470) | 3,367 | 826 | 4,608 |
| Share of profit (loss) of associates | 90 | 0 | 381 | (12) | 459 |
| (Loss) profit before income tax | (18,304) | 27,923 | 130,754 | (150) | 140,223 |
| Income tax | 3,752 | (5,558) | (27,611) | 417 | (29,000) |
| (Loss) profit | (14,552) | 22,365 | 103,143 | 267 | 111,223 |
| Other comprehensive profit (loss) | 3,056 | 15,206 | (4,695) | (15,371) | (1,804) |
| Total comprehensive (loss) income | (11,496) | 37,571 | 98,448 | (15,104) | 109,419 |
| Working capital from operations | 1,164 | 49,611 | 157,406 | 3,079 | 211,260 |
| Net cash from operating activities | 117,687 | 86,724 | 4,085 | 36,640 | 245,136 |
| Net cash used in investing activities | (37,611) | (34,559) | (60,265) | (87,507) | (219,942) |
| Net cash from (used in) financing activities | 19,880 | (20,716) | (2,868) | (10,616) | (14,320) |
| Year 2014 | | | | | |
| Operating income | 191,277 | 297,793 | 418,746 | 205,481 | 1,113,297 |
| Operating expenses without depreciation | (204,581) | (252,553) | (294,863) | (206,962) | (958,959) |
| Operating (loss) profit before depreciation (EBITDA) | (13,304) | 45,240 | 123,883 | (1,481) | 154,338 |
| Depreciation | (17,296) | (19,390) | (21,368) | (17,275) | (75,329) |
| Operating (loss) profit (EBIT) | (30,600) | 25,850 | 102,515 | (18,756) | 79,009 |
| Net finance (expense) income | (2,687) | (1,076) | 3,646 | 1,232 | 1,115 |
| Share of (loss) profit of associates | (75) | 2 | 28 | (171) | (216) |
| (Loss) profit before income tax | (33,362) | 24,776 | 106,189 | (17,695) | 79,908 |
| Income tax | 6,641 | (4,976) | (20,388) | 3,240 | (15,483) |
| (Loss) profit from continuing operations | (26,721) | 19,800 | 85,801 | (14,455) | 64,425 |
| Profit (loss) from discontinued operations | 0 | 2,593 | 0 | (519) | 2,074 |
| (Loss) profit | (26,721) | 22,393 | 85,801 | (14,974) | 66,499 |
| Other comprehensive (loss) profit | (1,548) | 2,331 | (5,737) | (23,578) | (28,532) |
| Total comprehensive (loss) income | (28,269) | 24,724 | 80,064 | (38,552) | 37,967 |
| Working capital (used in) from operations | (12,549) | 50,270 | 135,211 | (10,125) | 162,807 |
| Net cash from operating activities | 121,371 | 83,625 | 5,767 | 4,552 | 215,315 |
| Net cash used in investing activities | (33,946) | (14,009) | (38,383) | (43,818) | (130,156) |
| Net cash used in financing activities | (29,138) | (52,916) | (3,622) | (3,008) | (88,684) |

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