

Icelandair Group hf.

Condensed Consolidated Interim Financial Statements

1

1 January – 31 March 2020

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Endorsement and Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Icelandair Group hf. for the period from 1 January to 31 March 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements (IAS 34). The Interim Financial Statements comprise the Consolidated Interim Financial Statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The Condensed Consolidated Interim Financial Statements are stated in thousands of USD.

According to the Consolidated Statement of Comprehensive Income, loss for the period from 1 January to 31 March 2020 amounted to USD 240.2 million, of which USD 181.0 million in one-off COVID-19 related items. Total comprehensive loss for the period was USD 291.3 million. Equity at the end of the period amounted to USD 191.2 million, including share capital in the amount of USD 44.2 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.

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. The Condensed Consolidated Interim Financial Statements have not been audited or reviewed by the Company's independent auditors.

The COVID-19 pandemic is having a severe impact on the aviation and travel industries with continued uncertainty for the foreseeable future. To respond to the situation, Icelandair Group has taken extensive measures to get the Group through an extended period of minimum operations, including a considerable reduction in the number of employees and changes to its organizational structure. At the same time, the Group has acted swiftly and seized opportunities that the current situation has created, such as in the cargo and leasing operations. The Group's overall strategy aims at securing the continuity of necessary core operations and safeguard the flexibility needed for a quick scale-up when markets recover.

Moreover, fear of the virus along with widespread travel restrictions and mandatory self-isolation and quarantines for any passengers allowed to enter borders of their chosen destinations have had a profound adverse effect on the demand for international travel, resulting in a near total revenue loss which, if prolonged, threatens the Company's ability to carry out its core operations.

In response to this situation, the Company is working on strengthen its financial position and liquidity to ensure the Company's long term prospects and viability. This work and the necessary analysis is being conducted by management and a team of local as well as international advisors and in good cooperation with the Icelandic Government. The Company is preparing to complete a share offering in the coming weeks. As a part of that, successful negotiations with relevant unions are essential as well as the approval of a shareholders' meeting. Discussions are also ongoing, or being initiated, with other key stakeholders, such as lenders, lessors and suppliers to strengthen the long-term competitiveness of the Company even further. It has been announced that the Government is willing to consider granting the Company a credit line or providing a guarantee for such credit line conditioned upon the completion of the share offering. The Company expects that further conditions from the Government regarding the credit line will be required.

The grounding of the MAX aircraft is an ongoing issue as the Group has six MAX aircraft on the ground and no exact date has been issued as to when their suspension will be lifted. Icelandair remains in discussions with Boeing regarding further compensation for the financial loss resulting from the suspension and status of the future deliveries. Currently it is uncertain when the MAX aircraft will return to service and when deliveries of the remaining ten aircraft will take place.

On 3 April 2020 the Company finalised the sale of a 75% equity share in Icelandair Hotels to Berjaya Property Ireland Limited. The Company will retain its 25% share in the hotel company for a period of three years. The total cash consideration for the equity was USD 45.3 million and has been paid to the Company in full against delivery of the shares.

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

According to our best knowledge it is our opinion that the Condensed Consolidated Interim Financial Statements give a true and fair view of the financial performance of the Group for the three month period ended 31 March 2020, its assets, liabilities and consolidated financial position as at 31 March 2020 and its consolidated cash flows for the period then ended.

Further, in our opinion, the Condensed Consolidated Interim Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statements of Icelandair Group hf. for the period from 1 January to 31 March 2020 and confirm them by means of their signatures.

Reykjavík, 4 May 2020.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board
Svafa Grönfeldt
John F. Thomas
Nina Jonsson
Guðmundur Hafsteinsson

CEO:

Bogi Nils Bogason

Consolidated Statement of Comprehensive Income

for the period from 1 January to 31 March 2020

	Notes	2020 Q1	2019 Q1 Restated
Operating income			
Transport revenue	7	144,006	167,473
Aircraft and aircrew lease		26,695	25,120
Other operating revenue	7	38,280	56,009
		208,981	248,602
Operating expenses			
Salaries and salary related expenses		80,525	96,878
Aviation expenses		90,581	98,395
Other operating expenses		86,479	75,111
	8	257,585	270,384
Operating loss before depreciation and amortisation (EBITDA)		(48,604)	(21,782)
Depreciation and amortisation	9	(43,714)	(37,797)
Impairment	12	(116,158)	0
Operating loss before net finance costs (EBIT)		(208,476)	(59,579)
Finance income	10	14,019	432
Finance costs	10	(19,591)	(9,726)
Changes in fair value of derivatives	17	(51,007)	0
Net finance costs		(56,579)	(9,294)
Share of profit of associates, net of tax	21	698	405
Loss before tax		(264,357)	(68,468)
Income tax		24,132	13,355
Loss for the period		(240,225)	(55,113)
Other comprehensive loss:			
Foreign currency translation differences of foreign operations		(26,762)	(1,493)
Net loss on hedge of investment, net of tax		(11,500)	(4,042)
Effective portion of changes in fair value of cash flow hedge, net of tax		(12,785)	15,074
Other comprehensive (loss) profit for the period		(51,047)	9,539
Total comprehensive loss for the period		(291,272)	(45,574)
Loss attributable to:			
Owners of the Company		(231,536)	(55,196)
Non-controlling interest		(8,689)	83
Loss for the period		(240,225)	(55,113)
Total Comprehensive loss attributable to:			
Owners of the Company		(282,597)	(45,618)
Non-controlling interest		(8,675)	44
Total comprehensive loss for the period		(291,272)	(45,574)
Earnings per share:			
Basic earnings per share in US cent per share		(4.26)	(1.15)
Diluted earnings per share in US cent per share		(4.26)	(1.15)

The notes on pages 9 to 24 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Financial Position

as at 31 March 2020

	Notes	31.3.2020	31.12.2019
Assets			
Operating assets		601,575	630,400
Right-of-use assets		133,972	134,035
Intangible assets and goodwill	11	61,580	175,231
Investments in associates	21	22,580	25,784
Deferred cost		4,376	4,741
Receivables and deposits		26,683	44,967
Non-current assets		850,766	1,015,158
Inventories		20,921	22,689
Derivatives used for hedging		0	1,881
Trade and other receivables		83,863	124,879
Assets classified as held for sale	6	223,022	276,907
Cash and cash equivalents		213,619	235,073
Current assets		541,425	661,429
Total assets		1,392,190	1,676,587
Equity			
Share capital		44,199	44,199
Share premium		174,299	174,299
Reserves	13	(12,589)	45,449
Retained earnings		(5,426)	219,132
Equity attributable to equity holders of the Company		200,483	483,079
Non-controlling interest		(9,276)	(601)
Total equity		191,207	482,478
Liabilities			
Loans and borrowings	14	154,587	241,328
Lease liabilities	15	130,177	135,473
Payables		22,036	23,418
Deferred tax liabilities		0	25,679
Non-current liabilities		306,800	425,898
Loans and borrowings	14	110,202	79,958
Lease liabilities	15	22,748	22,980
Derivatives	17	49,012	1,561
Liabilities classified as held for sale	6	202,061	238,732
Trade and other payables		453,056	221,000
Deferred income	16	57,103	203,980
Current liabilities		894,183	768,211
Total liabilities		1,200,983	1,194,109
Total equity and liabilities		1,392,190	1,676,587

The notes on pages 9 to 24 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Changes in Equity

for the period from 1 January to 31 March 2020

Attributable to equity holders of the Company

1 January to 31 March 2019	Share capital	Share premium	Reserves *	Retained earnings	Total	Non-controlling interest	Total equity
Equity 1 January 2019	39,053	133,513	26,262	271,034	469,862	1,517	471,379
Total comprehensive loss			9,578	(55,196)	(45,618)	44	(45,574)
Effects of profit or loss and dividend from subsidiaries			(1,784)	1,784			
Equity 31 March 2019	39,053	133,513	34,056	217,622	424,244	1,561	425,805

1 January to 31 March 2020

Equity 1 January 2020	44,199	174,299	45,449	219,132	483,079	(601)	482,478
Total comprehensive loss			(51,061)	(231,536)	(282,597)	(8,675)	(291,272)
Effects of profit or loss and dividend from subsidiaries			(6,977)	6,977			
Equity 31 March 2020	44,199	174,299	(12,589)	(5,426)	200,482	(9,276)	191,207

* See further in note 13

The notes on pages 9 to 24 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Cash Flows for the three months ended 31 March 2020

	Notes	2020 Q1	2019 Q1
Cash flows from operating activities			
Loss for the period		(240,225)	(55,113)
Adjustments for:			
Depreciation and amortisation		43,714	37,797
Impairment		116,158	0
Expensed deferred cost		2,840	7,114
Net finance costs		5,572	9,294
Changes in fair value of derivatives		51,007	0
Gain on sales of operating assets		0	(6,704)
Share in profit of associates		(698)	(405)
Deferred taxes		(24,132)	(13,355)
		(45,764)	(21,372)
Changes in:			
Inventories, decrease (increase)		1,400	(3,630)
Trade and other receivables, decrease (increase)		44,085	(63,507)
Trade and other payables, increase		227,318	26,308
Deferred income, (decrease) increase		(144,014)	140,510
Cash generated from operating activities		128,789	99,681
Interest received		376	457
Interest paid		(6,021)	(5,825)
Net cash from operating activities		77,380	72,941
Cash flows used in investing activities:			
Acquisition of operating assets		(24,039)	(172,077)
Proceeds from sale of operating assets		0	150,942
Deferred cost		(3,599)	(8,468)
Acquisition of intangible assets		(341)	(1,032)
Investment in associates	21	0	(1,462)
Non-current receivables, change		(1,853)	(8,681)
Cash attributable to assets held for sale	6	(4,920)	(12,814)
Net cash used in investing activities		(34,752)	(53,592)
Cash flows from financing activities:			
Proceeds from non-current borrowing		0	79,799
Repayment of non-current borrowings		(8,630)	(88,940)
Repayment of lease liabilities		(8,856)	(6,451)
Repayment of short term borrowings		(42,257)	(13,136)
Net cash to financing activities		(59,743)	(28,728)
Decrease in cash and cash equivalents		(17,115)	(9,379)
Effect of exchange rate fluctuations on cash held		(4,339)	(1,061)
Cash and cash equivalents at beginning of the period		235,073	299,460
Cash and cash equivalents at 31 March		213,619	289,020
Investment and financing without cash flow effect:			
Acquisition of right-of-use assets		(357)	(104,457)
New or renewed leases		357	104,457

The notes on pages 9 to 24 are an integral part of these interim consolidation financial statements.

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The Condensed Consolidated Interim Financial Statements of the Company as at and for the three months ended 31 March 2020 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates. The Group primarily operates in the airline and tourism sectors. The Company is listed on Nasdaq Iceland.

The Group's Consolidated Financial Statements as at and for the year ended 31 December 2019 are available upon request from the Company's registered office at Reykjavíkurlugvöllur in Reykjavík, Iceland or at its website address, www.icelandairgroup.is and at The Icelandic Stock Exchange website, www.nasdaqomx.com

2. Basis of accounting

The Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for Consolidated Financial Statements of listed companies. These Interim Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting. Interim Consolidated Financial Statements have been prepared under the historical cost convention, except for financial assets and liabilities, which are valued at fair value through other Comprehensive Income. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual Consolidated Financial Statements as at and for the year ended 31 December 2019.

The accounting policies and methods of computation applied in these Consolidated Interim Financial Statements are the same as those applied by the Group in its Consolidated Financial Statements as at and for the year ended 31 December 2019.

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

These Interim Financial Statements were approved for issue by the Board of Directors on 4 May 2020.

These Consolidated Interim Financial Statements are prepared on a going concern basis. Despite substantial uncertainty, described further in the Endorsement and Statement of the Board of Directors and the CEO and in note 23, the board believes that it is appropriate to prepare these Consolidated Interim Financial Statements on a going concern basis because of planned action and actions already taken to strengthen the Group's financial standing and liquidity.

3. Use of judgements and estimates

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

Due to COVID-19, the aviation and travel industries are facing tremendous uncertainty, as to when travel restrictions will be lifted, and demand will start again. In preparation of these Consolidated Interim Financial Statement, the management adjusted its estimations and assumptions towards the current unprecedented circumstances resulting in significant impairment of goodwill and valuation of fuel hedges.

The remaining significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 31 December 2019.

4. Changes in accounting policies

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these Consolidated Interim Financial Statements and they are not considered to have significant impact on the Consolidated Interim Financial Statements.

Notes, contd.:

5. Operating segments

Segment information is presented in the interim 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. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis.

Each entity operates its operations as a single business unit and the management of Icelandair Group assesses performance based on measures including operating profit, and makes resource allocation decisions for the entities based on various performance metrics. The objective in making resource allocation decisions is to optimize consolidated financial results.

Icelandair

The largest entity of the Group, the international passenger airline Icelandair ehf., including its subsidiary Icelandair Cargo, has been identified for financial reporting purposes as a reportable operating segment. Icelandair's route network is based on the Hub and Spoke concept between Europe and North America via Iceland, leveraging Iceland's geographical position. This successful strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed Icelandair to constantly grow and expand its route network over the past years. Icelandair Cargo offers freight services by utilizing the capacity within aircraft of the Icelandair passenger network as well as with their own freighters.

Icceignir, a real estate company that holds the real estate of Icelandair Group and IceCap, a captive insurance company and A320, a dormant are platform functions of the business that primarily support the Group entities in this segment and are therefore classified within this segment.

Other Group entities

Loftleidir Icelandic, which offers aircraft leasing and consulting services to international passenger airlines and tour operators, Iceland Travel, the largest incoming tour operator in Iceland, Air Iceland Connect, the domestic and regional carrier and FERIA, which operates under the name VITA as an outgoing tour operator are also operating segments but do not exceed the quantitative thresholds to be reportable and management has concluded that there are currently no other reasons why they should be separately disclosed.

Icelandair Hotels, offers quality hotels both in Reykjavík and around the countryside, is also classified within this segment. As further discussed in note 6, control of 75% equity share in Icelandair Hotels was delivered to Berjaya Property Ireland Limited on 3 April 2020 when the remaining balance of the purchase consideration was paid.

Notes, contd.:

5. Operating segments, contd.:

Reportable segments for the three months ended 31 March 2020

	Icelandair	Other Group entities	Total
External revenue	148,499	60,482	208,981
Inter-segment revenue	23,297	1,288	24,585
Segment revenue	171,796	61,770	233,566
Depreciation and amortisation	(35,599)	(8,115)	(43,714)
Impairment	(82,859)	(33,299)	(116,158)
Segment EBIT	(162,198)	(46,278)	(208,476)
Finance income	16,468	311	16,779
Finance costs	(19,293)	(3,058)	(22,351)
Fair value change	(50,552)	(455)	(51,007)
Share of profit of equity accounted investees	696	2	698
Reportable segment loss before tax	(214,879)	(49,478)	(264,357)
Reportable segment assets	1,382,000	420,157	1,802,157

Reportable segments for the three months ended 31 March 2019 (restated)

External revenue	178,334	70,268	248,602
Inter-segment revenue	27,103	915	28,018
Segment revenue	205,437	71,183	276,620
Depreciation and amortisation	(26,371)	(11,426)	(37,797)
Segment EBIT	(52,589)	(6,990)	(59,579)
Finance income	1,530	309	1,839
Finance costs	(5,953)	(5,180)	(11,133)
Share of profit of equity accounted investees	362	43	405
Reportable segment loss before tax	(56,650)	(11,818)	(68,468)
Reportable segment assets	2,021,159	537,972	2,559,131

Notes, contd.:

5. Operating segments, contd.:

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

	2020 Q1	2019 Q1
Revenue		
Total revenue for reportable segments	233,566	276,620
Elimination of inter-segment revenue	(24,585)	(28,018)
Consolidated revenue	208,981	248,602
Profit or loss		
Consolidated loss before tax	(264,357)	(68,468)
Assets		
Total assets for reportable segments	1,778,893	2,532,547
Investments in associates	23,264	26,584
Elimination of inter-segment assets	(409,967)	(676,876)
Consolidated total assets	1,392,190	1,882,255
Liabilities		
Total liabilities for reportable segments	1,501,954	1,921,106
Elimination of inter-segment liabilities	(300,971)	(464,656)
Consolidated total liabilities	1,200,983	1,456,450

Other material items	Reportable segment totals	Adjust- ments	Consoli- dated totals
1.1.-31.3. 2020			
Segment EBIT	(208,476)		(208,476)
Finance income	16,779	(2,760)	14,019
Finance costs	(22,351)	2,760	(19,591)
Depreciation and amortisation	(43,714)		(43,714)
Share of profit of associates	698		698
Capital expenditure	24,380		24,380
1.1.-31.3. 2019			
Segment EBIT	(59,579)		(59,579)
Finance income	1,839	(1,407)	432
Finance costs	(11,133)	1,407	(9,726)
Depreciation and amortisation	(37,797)		(37,797)
Share of profit of associates	405		405
Capital expenditure	173,109		173,109

Notes, contd.:

5. Operating segments, contd.:

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:

	2020 Q1	2019 Q1
<i>Revenues</i>		
North America	31%	33%
Iceland	29%	30%
West Continental Europe	14%	11%
Scandinavia	6%	6%
United Kingdom	6%	6%
Other	14%	14%
Total revenues	100%	100%

Notes, contd.:

6. Assets held for sale

During the years 2018 and 2019 the Company decided to sell its subsidiaries, Icelandair Hotels and Iceland Travel, following a strategic decision to place greater focus on the Group's key competencies, i.e. the airline industry. See further in note 5. In the year 2020 Iceland Travel has been reclassified from assets held for sale.

As the operations of Icelandair Hotels are deemed immaterial in the consolidated statement of comprehensive income, they are not presented as discontinued operations. In the consolidated statement of financial position, assets and liabilities of this segment are classified as held for sale. The impact on the consolidated financial statements as a whole is presented below.

Impacts on the consolidated financial statements

	2020 *	2019 **
	Q1	Q1
(i) Comprehensive income (loss)		
Revenue	13,258	27,386
Elimination of inter-segment revenue	(979)	(671)
External revenue	12,279	26,715
Expenses	18,297	32,020
Elimination of expenses of inter-segment sales	(979)	(671)
External expenses	17,318	31,349
Loss from operating activities	(5,039)	(4,634)
Net finance cost	(9,190)	(4,472)
Share of profit of associates	2	43
	(14,227)	(9,063)
Income tax	2,648	1,910
Loss from tourism services, net of tax	(11,579)	(7,153)
Basic earnings per share in US cent per share	(0.21)	(0.15)
Diluted earnings per share in US cent per share	(0.21)	(0.15)
(ii) Cash flows from (used in)		
Net cash from operating activities	(1,335)	4,945
Net cash used in investing activities	(405)	(1,792)
Net cash to financing activities	(2,790)	(2,466)
Net cash flows for the period	(4,530)	687

* Icelandair Hotels

** Icelandair Hotels and Iceland Travel

Notes, contd.:

6. Assets held for sale, contd.:

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

The assets and liabilities of Icelandair Hotels (and Iceland Travel for the year 2019) are presented as held for sale in the consolidated statements of financial position at end of March 2020. The carrying amounts of the major classes of assets and liabilities were as follows:

	31.3.2020 *	31.12.2019 **
	Total	Total
Operating assets	84,820	100,201
Right-of-use assets	123,189	145,909
Intangible assets and goodwill	3,267	7,437
Investments in associates	864	1,011
Inventories	654	902
Trade and other receivables	5,308	9,960
Cash and cash equivalents	4,920	11,487
Total assets	223,022	276,907
Deferred tax liabilities	(941)	2,045
Loans and borrowings	62,017	66,098
Lease liabilities	125,902	149,554
Trade and other payables	9,533	13,451
Deferred income	5,550	7,584
Total liabilities	202,061	238,732
Net assets and liabilities	20,961	38,175

* Icelandair Hotels

** Icelandair Hotels and Iceland Travel

On 13 July 2019 the Company signed a share purchase agreement (the "Agreement") with Berjaya Property Ireland Limited ("Berjaya"), a subsidiary of Berjaya Land Berhad, whereby Berjaya acquired a majority share in Icelandair Hotels and related real estate (the "Hotels"). The completion of the transaction was set for year-end 2019 but was postponed until 28 February and then again until 31 May, inter alia due to complications resulting from the COVID-19 pandemic.

Following negotiations the sale was ultimately closed on 3 April 2020 with the 75% share being delivered to Berjaya the same day. Icelandair Group will retain its 25% share for a minimum of three years in line with the terms of a call and put option agreement between the parties.

The total sales price for the Company's shares has been paid in full, USD 45.3 million. The profit from the sale of 75% shares amounts to USD 15.4 million and will be recognised in Q2 2020.

The Company still classifies the Hotels as assets held for sale in Q1 2020. Remaining 25% minority stake retained by the Company, will be classified as an associate in the Company's financial statements going forward.

Notes, contd.:

7. Operating income

	2020 Q1	2019 Q1
Transport revenue is specified as follows:		
Passengers	116,532	135,442
Passenger ancillary revenues	14,183	17,553
Cargo and mail	13,291	14,478
Total transport revenue	144,006	167,473
Other operating revenue is specified as follows:		
Sale in airport and hotels	12,176	18,609
Revenue from tourism	14,931	17,153
Aircraft and cargo handling services	5,194	5,287
Maintenance revenue	765	1,734
Gain on sale of operating assets	0	6,704
Other operating revenue	5,214	6,522
Total other operating revenue	38,280	56,009

8. Operating expenses

Salaries and salary related expenses are specified as follows:

Salaries	64,152	74,077
Salary related expenses	16,373	22,801
Total salaries and salary related expenses	80,525	96,878

Aviation expenses are specified as follows:

Aircraft fuel	51,557	51,838
Aircraft lease	424	3,970
Aircraft handling, landing and communication	20,737	24,739
Aircraft maintenance expenses	17,863	17,848
Total aviation expenses	90,581	98,395

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures	3,343	4,460
Communication	6,665	7,191
Advertising	4,398	7,084
Booking fees and commission expenses	20,643	11,693
Cost of goods sold	1,990	3,037
Customer services	12,117	11,060
Travel and other employee expenses	10,262	13,338
Tourism expenses	5,948	8,768
Allowance for bad debt *	12,294	(45)
Other operating expenses	8,819	8,525
Total other operating expenses	86,479	75,111

* The Group made an allowance for bad debt of its exposures on accounts receivables regarding leasing agreements in Q1 2020 amounting to USD 11.3 million reflecting uncertainty in the airline industry.

9. Depreciation and amortisation

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

Depreciation of operating assets	35,260	30,082
Depreciation of right-of-use assets	7,209	6,599
Amortisation of intangible assets, see note 11	1,245	1,116
Total depreciation and amortisation	43,714	37,797

Notes, contd.:

10. Finance income and finance costs

	2020 Q1	2019 Q1
Finance income and finance costs are specified as follows:		
Interest income on bank deposits	183	98
Interest income on lease receivables	191	231
Other interest income	676 (	81)
Net foreign exchange gain	12,969	184
Finance income total	14,019	432
Interest expenses on loans and borrowings	3,216	6,128
Interest on lease liabilities	3,525	3,342
Interest on Pre Delivery Payments for aircraft (PDP)	12,542	0
Other interest expenses	308	256
Finance costs total	19,591	9,726
Changes in fair value of derivatives	(51,007)	0
Net finance costs	(56,579)	(9,294)

11. Intangible assets and goodwill

Intangible assets and goodwill are specified as follows:

Cost	Goodwill	Trademarks and slots	Other intangibles	Total
Balance at 1 January 2019	151,833	36,013	6,988	194,834
Reclassification	1,448 (	1,448)		0
Additions	0	0	5,654	5,654
Sales and disposals	0	0 (	242) (	242)
Assets classified as held for sale	(1,988)	0 (	4,749) (	6,737)
Effects of movements in exchange rates	(758)	0 (	205) (	963)
Balance at 31 December 2019	150,535	34,565	7,446	192,546
Additions	0	0	341	341
Assets classified from held for sale	1,988	0	4,571	6,559
Effects of movements in exchange rates	37	0	611	648
Balance at 31 March 2020	152,560	34,565	12,969	200,094

Amortisation and impairment losses

Balance at 1 January 2019	11,431	2,605	3,230	17,266
Amortisation	959	0	3,504	4,463
Sales and disposals	0	0 (	44) (	44)
Assets classified as held for sale	(433)	0 (	3,857) (	4,290)
Effects of movements in exchange rates	0	0 (	80) (	80)
Balance at 31 December 2019	11,957	2,605	2,753	17,315
Amortisation	0	0	1,245	1,245
Impairment	116,158	0	0	116,158
Assets classified from held for sale	71	0	3,697	3,768
Effects of movements in exchange rates	0	0	28	28
Balance at 31 March 2020	128,186	2,605	7,723	138,514

Carrying amounts

At 31 December 2019	138,578	31,960	4,693	175,231
At 31 March 2020	24,374	31,960	5,246	61,580

Notes, contd.:

12. 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:

	31.3.2020	31.12.2019
Goodwill	24,374	138,578
Trademarks and airport slots	31,960	31,960
Total	56,334	170,538

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	
	31.3.2020	31.12.2019	31.3.2020	31.12.2019
Icelandair	0	82,850	22,445	22,445
Other Group entities	24,374	55,728	9,515	9,515
Total goodwill	24,374	138,578	31,960	31,960

Icelandair Group's operations have been significantly affected by the COVID-19 outbreak and the associated wide-ranging travel bans and decrease in travel demand. The Group is facing tremendous uncertainty regarding when travel restrictions will be lifted and demand will increase again. To respond to the situation, Icelandair Group has taken extensive measures to get the Group through an extended period of minimum operations, including a considerable reduction in the number of employees and changes to its organizational structure. At the same time, necessary core operations are being secured to maintain the flexibility needed for a quick scale-up of the Group when markets recover.

Therefore, the management has revised its long term business plan and increased the flexibility to cope with the unprecedented circumstances in the world. The business plan assumes that minimum operations are maintained for as long as necessary and that capacity is rationally increased when demand starts to justify additional capacity. The business plan assumes that it can take some years to reach the same production capacity as in 2019.

The recoverable amounts of cash-generating units (CGU) 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 revised 5 year business plan. Cash flows were extrapolated for determining the residual value using a constant nominal growth rate which was consistent with the long-term average growth rate for the industry. Management believes that this forecast period was justified due to the long-term nature of the business.

Notes, contd.:

12. Impairment test, contd.:

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:

	Icelandair	Other Group entities
31.03.2020		
Long term growth rate	2.0%	1.5 - 2.0%
Revenue growth:		
Weighted average 2019/2018	10.7%	-22 - 18%
2019 - 2023 / 2018 - 2022	-0.5%	2.7 - 6.6%
Budgeted EBIT growth	210.0%	-5.6 - 6.3%
WACC	10.3%	11.4 - 18.7%
Debt leverage	47.9%	28.6 - 49.9%
Interest rate for debt	4.2%	4.2 - 5.7%
31.12.2019		
Long term growth rate	3.5%	2.5 - 3.5%
Revenue growth:		
Weighted average 2019/2018	10.7%	-22 - -18%
2019 - 2023 / 2018 - 2022	4.5%	0.5 - 10.4%
Budgeted EBIT growth	202.4%	5.7 - 11.6%
WACC	10.4%	8.4 - 16.4%
Debt leverage	43.9%	27.1 - 45.8%
Interest rate for debt	4.2%	1.9 - 7.0%

The recoverable amounts of the cash-generating units were estimated to be lower than carrying amounts. Therefore, impairment amounting to USD 116.2 million has been recognized. The estimated recoverable amount of the Icelandair segment is lower by USD 77.6 million than its carrying amount. A change in WACC by 0,04% or long term EBIT of 0,08% would lead to an impairment equal to the carrying amount. Due to the sensitivity of the impairment test, the full amount of the goodwill of the Icelandair segment has been impaired (USD 82.9 million). An impairment of USD 33.3 million has been recognized for one of other Group entity. A change in WACC of 7% would lead to an impairment equal to the carrying amount.

13. Equity

	Hedging reserve	Translation reserve	Other reserves	Total reserves
Reserves are specified as follows:				
Reserves 1.1.2019	(26,434)	35,570	17,126	26,262
Changes during the period	15,074	(1,454)	(5,826)	7,794
Reserves 31.3.2019	(11,360)	34,116	11,300	34,056
Reserves 1.1.2020	(28)	24,346	21,131	45,449
Changes during the period	(63,736)	(38,332)	0	(102,068)
Recognized loss in P&L	51,007	0	(6,977)	44,030
Reserves 31.3.2020	(12,757)	(13,986)	14,154	(12,589)

Notes, contd.:

14. 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.

	31.3.2020	31.12.2019
Non-current loans and borrowings:		
Secured bank loans	264,789	279,028
Current maturities	(110,202)	(37,700)
Total non-current loans and borrowings	154,587	241,328
Current loans and borrowings:		
Current maturities	110,202	37,700
Bank overdrafts and bank loans	0	42,258
Total current loans and borrowings	110,202	79,958
Total loans and borrowing	264,789	321,286

Terms and debt repayment schedule:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance	
				31.3.2020	31.12.2019
Secured bank loans	USD	4.1%	2022-2028	174,805	181,505
Secured bank loans	EUR	1.2%	2026-2028	62,440	65,184
Secured bank loans	ISK	5.4%	2024	27,544	32,339
Secured bank loans - short term	USD			0	29,892
Secured bank loans - short term	ISK			0	12,366
Total interest-bearing liabilities				264,789	321,286

As at the end of 31 March 2020, the Group had undrawn credit lines in the amount of USD 62.5 million denominated in USD and ISK.

Repayments of loans and borrowings are specified as follows:

	31.3.2020	31.12.2019
Repayments in 2020 (9 months)(2019: 12 months)	105,752	79,958
Repayments in 2021	17,680	38,116
Repayments in 2022	21,653	42,032
Repayments in 2023	17,510	37,896
Repayments in 2024	33,587	54,177
Subsequent repayments	68,607	69,107
Total loans and borrowings	264,789	321,286

At the end of Q1 2020, the Company had been granted waivers for not fulfilling two covenants in two long term loan agreements (one covenant in each) at the reporting date. These loans amount to USD 93.0 million. Since these waivers are not valid for 12 months into the future, the loans are classified as short term despite the fact that both mature in 2024.

Notes, contd.:

15. Lease liabilities

This note provides information on the contractual terms of the Group's lease liabilities, which are measured at amortised cost.

	Interest rates	Total remaining balance	
		31.3.2020	31.12.2019
Lease liabilities USD	4.7%	142,034	147,206
Indexed lease liabilities ISK	4.7%	8,894	9,000
Lease liabilities GBP	2.2%	1,458	1,604
Lease liabilities other	3.9%	540	643
Current maturity		(22,749)	(22,980)
Total lease liabilities		130,177	135,473

Repayments of lease liabilities are specified as follows:

Repayments in 2020 (9 months)(2019: 12 months)	17,039	22,980
Repayments in 2021	21,347	21,189
Repayments in 2022	20,108	19,893
Repayments in 2023	19,890	19,678
Repayments in 2024	18,316	18,084
Subsequent repayments	56,226	56,629
Total loans and borrowings	152,926	158,453

16. Deferred income

Sold unused tickets, fair value of unutilized frequent flyer points and other prepayments are presented as deferred income in the consolidated statement of financial position.

Deferred income is specified as follows:	31.3.2020	31.12.2019
Sold unused tickets	26,897	154,180
Frequent flyer points	18,133	17,591
Other prepayments	12,073	32,209
Total deferred income	57,103	203,980

The amount allocated to sold unused tickets is the book value of fares and fuel surcharges that the Group has collected and is liable for to passengers. In the current unprecedented circumstances, a substantial part of this deferred income has been reclassified to trade and other payables.

The amount allocated to frequent flyer 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 program, can be redeemed takes into account the expected redemption rate and the timing of such expected redemptions. That amount is recognised as deferred income.

Notes, contd.:

17. Derivatives

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 and up to 20% from 13-18 months forward. The hedging policy allows for both swaps and options traded with approved counterparties and within approved limits.

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 P&L	
	31.3.2020	31.12.2019	31.3.2020	31.12.2019
Increase in fuel prices by 10%	708	12,656	5,362	0
Decrease in fuel prices by 10%	(708)	(12,656)	(5,362)	0

Hedge accounting

The Hedge Accounting Standards of IFRS9 require hedge instruments to fulfill certain criteria so that the market value of open hedge positions can be allocated to equity as hedge reserves until settlement day. One of these qualifications is the requirement of effectiveness of the financial instrument against the identified exposure. The exposure has to be considered highly likely on the basis of a robust forecast of operations. Due to the COVID-19 pandemic, this exposure has now been revalued and materially downgraded thus rendering a large proportion of the financial instruments ineffective. The revaluation is based on a new business forecast which includes an estimation of the volume of fuel consumption covering the tenor of the open positions. The rebalancing of exposure is based on partial discontinuation. The remaining effective hedge instruments reflect 60% of the revised exposure. This percentage is in line with the Company's Risk Management Policy.

Following table shows effective and ineffective fuel hedges:

31.03.2020	1-6 months	7-12 months	> 13 months	Total
Fuel	33,335	13,944	10,409	57,688
Currency	5,586	2,719	0	8,305
Interest rate swap	135	135	749	1,019
Margin accounts	(18,000)	0	0	(18,000)
Total derivatives	21,056	16,798	11,158	49,012
Ineffective fuel derivatives, P&L	(29,481)	(12,238)	(9,288)	(51,007)
Tax	(1,962)	(912)	(374)	(3,248)
Total derivatives used for hedge, Equity	7,613	3,648	1,496	12,757

Notes, contd.:

18. Financial instruments and fair values

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

	31.3.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives used for hedging	(49,012)	(49,012)	320	320
Unsecured bond issue	0	0	(12,366)	(12,366)
Secured loans	(264,789)	(265,965)	(308,920)	(319,389)
Lease liabilities	(152,926)	(152,926)	(158,453)	(158,453)
Total	(466,727)	(467,903)	(479,419)	(489,888)

19. Capital commitments

In 2013, Icelandair Group and Boeing signed an agreement for the purchase of sixteen Boeing 737 MAX8 and MAX9 aircraft with an option to purchase additional eight aircraft. Icelandair has already taken delivery of six aircraft which have been grounded since March 2019. Further three aircraft were supposed to be delivered in the first half of 2019 and five aircraft in Q1 2020. None of these aircraft have been delivered to date.

Currently, it is uncertain when the MAX aircraft will return to service and when deliveries will take place. The MAX production line is currently halted and it's uncertain when production will start again. Due to this uncertainty, Icelandair expensed USD 12.5 million in financing cost of pre-delivery payments (PDPs) in Q1 2020 which is accumulated financing cost of these undelivered MAX aircraft which would have been capitalized as part of the purchase price at the time of delivery under normal circumstances.

Pre-delivery payments (PDPs) amounting to USD 12.7 million which the Company has paid to Boeing are classified as trade and other receivables.

20. Group entities

The Company held nine subsidiaries at the end of March 2020.

	Share
Icelandair	
A320 ehf.	100%
IceCap Insurance PCC Ltd.	100%
Icceignir ehf.	100%
Icelandair ehf. *	100%
Other Group entities	
Loftleiðir - Icelandic ehf.	100%
Flugfélag Íslands ehf. (Air Iceland Connect)	100%
FERIA ehf. (VITA)	100%
Iceland Travel ehf.	100%
Flugleiðahótel ehf. (Icelandair Hotels) **	25%

* Icelandair Cargo ehf. is a subsidiary of Icelandair ehf.

** Flugleiðahótel ehf. (Icelandair Hotels) was classified as a subsidiary at the end of March 2020. As further discussed in note 6, control of 75% equity share in Icelandair Hotels was delivered to Berjaya Property Ireland Limited on 3 April 2020 when the remaining balance of the purchase consideration was paid.

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

Notes, contd.:

21. Investment in associates

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

	Ownership	Carrying amount 1.1.-31.3.20	Share of profit/loss in associates 31.3.2020	Carrying amount 31.12.2019	Share of profit/loss in associates 1.1.-31.3.19
Lindarvatn ehf.	50%	13,147	(7)	15,435	(41)
ITF 1 slhf.	29%	8,171	572	9,009	403
Cabo Verde Airlines	36%	0	0	0	0
EBK ehf.	25%	1,101	131	1,154	0
Other investments		161	2	186	43
Total investments in associates		22,580	698	25,784	405

Lindarvatn ehf. is the owner of a property at Thorvaldsensstræti and other properties located near Austurvöllur which are being rebuilt as a hotel. In total, the properties are 15.000 square meters. The new hotel is expected to be 11.000 square meters and a lease agreement is in place with Icelandair Hotels.

The operating results for Cabo Verde Airlines in Q1 2020 were below expectation. Cabo Verde Airlines is now seeking long term financing. If long term financing will not be secured, it might negatively affect the operation of Cabo Verde Airlines. Negative developments in Cabo Verde Airlines operations might further impact the operations of Loftleiðir Icelandic in 2020.

22. Ratios

The Group's primary ratios are specified as follows:

	31.3.2020	31.12.2019
Current ratio	0.61	0.86
Equity ratio	0.14	0.29
Equity ratio without Icelandair Hotels at 3 April 2020	0.18	0.34
Intrinsic value of share capital	4.33	10.91

23. Events after the reporting period

On 3 April 2020, the Company completed the sale of a 75% share in Icelandair Hotels to Berjaya. The cash consideration was paid in instalments on 30 December 2019, 28 February 2020 and 3 April 2020. The total amount was USD 45.3 million. The Company will retain a 25% equity share in the Hotels for a period of at least three years in accordance with terms set out in a call and put option agreement that the Parties signed along with the share purchase agreement. The delivery of the shares took place on 3 April. See further in note 6.

Icelandair Group's operations have been significantly affected by the COVID-19 outbreak and the associated wide-ranging travel bans and decrease in travel demand. The Group is facing tremendous uncertainty regarding when travel restrictions will be lifted and demand will increase again. To respond to the situation, Icelandair Group has taken extensive measures to get the Group through an extended period of minimum operations, including a considerable reduction in the number of employees and changes to its organizational structure. At the same time, the Group has acted swiftly and seized opportunities that the current situation has created, such as in the cargo and leasing operations. The Group's overall strategy aims at securing the continuity of necessary core operations and safeguard the flexibility needed for a quick scale-up when markets recover.

The Group has taken significant steps to minimize the impact on cash flow and ensure a highly competitive cost structure going forward. However, assuming minimum revenue until the travel bans will be lifted, the Group is focusing on improving its liquidity and equity position as well as securing its long-term profitability. To achieve this, the Group is preparing to issue and sell new shares. As a part of that, successful negotiations with relevant unions are essential as well as the approval of a shareholders' meeting. Discussions are currently ongoing, or being initiated, with other key stakeholders, such as lenders, lessors and suppliers to strengthen the long-term competitiveness of the Group even further. Icelandair Group has also been in close contact with the Icelandic Government during the process.

