

Icelandair Group hf.

Condensed Consolidated Interim Financial Statements

1

1 January – 31 March 2021



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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 2021 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". All amounts are stated in thousands of USD.

According to the Consolidated Statement of Comprehensive Income, loss for the period from 1 January to 31 March 2021 amounted to USD 30.1 million. Total comprehensive loss for the period was USD 23.7 million. Equity at 31 March 2021 amounted to USD 209.1 million, including share capital in the amount of USD 213.0 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 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Icelandic disclosure requirements for Consolidated Financial Statements of listed companies. The Condensed Consolidated Interim Financial Statements have neither been audited nor reviewed by the Company's independent auditors.

The first quarter of 2021 continued to be heavily impacted by COVID-19 with widespread travel restrictions still in place in the Company's key markets. As a result, Icelandair operated a severely restricted flight schedule during the period that translates to 7% of ASK compared to Q1 2019. The progress of vaccinations in some of Icelandair's international markets and the fact that Icelandic authorities have announced the opening of the Icelandic borders to vaccinated travelers both from, within and outside Schengen have had a positive impact on Icelandair's booking inflow. During the last four weeks, the bookings in the international route network have more than doubled compared to the previous four weeks. Following its marketing campaigns, Icelandair is experiencing strong interest from travelers from the United States to travel to Iceland and bookings from various gateways in the US have increased in the last few weeks. Bookings from Icelandair's European markets are currently slower but expected to increase when the status of the pandemic improves and vaccinations progress. With the strongly increasing demand from the US, the company is well positioned for a quick and efficient ramp-up. Additionally, with the expected opening of Europe to vaccinated US travelers, the VIA market is promising. Icelandair expects to start a moderate ramp-up in the second quarter with further increase in production expected in the third quarter 2021. The outlook for bookings in Q4 2021 is good.

In Q2 2020, the Company announced it would integrate the operations of its subsidiary Air Iceland Connect ("AIC"), a domestic and regional carrier, and Icelandair ehf. The integration has now been successfully completed and the first domestic flight under the Icelandair brand took place on 16 March 2021. Given that the status of the pandemic will continue to improve in Iceland, the outlook for Icelandair's domestic flights is favorable and expected to have reached 2019 capacity levels by June 2021.

Following a 22-month long grounding period the Boeing 737 MAX (the "MAX") aircraft has been re-certified by the FAA and EASA and was reintroduced into the Group's network in early March 2021. The Group expects to take delivery of three MAX aircraft in Q2 2021 following which the fleet will comprise nine MAX aircraft. The final three MAX aircraft on order are scheduled to be delivered by Q1 2022. The MAX aircraft is well suited for the Group's route network and forms an important component in its bid for increased efficiency, reduced carbon emission and overall fleet renewal strategy.

In response to the situation brought on by the pandemic, the Group continues to take meaningful actions to minimize cash burn and safeguard its strong financial and liquidity position. The Group's total liquidity, including assets held for sale, amounted to USD 281.5 million at 31 March 2021. The strong position allows the Group to remain flexible and maintain its capabilities to ramp up quickly once demand picks up while navigating the uncertain operating conditions that prevail in the near term.

On 19 January 2021, the Company announced that it planned to initiate a sales process of its inbound travel organizer subsidiary Iceland Travel. The decision is in line with the Group's strategy to focus on its flight operations, its core business. The sales process is currently ongoing and the Company expects to reach an agreement with a potential buyer in Q2 2021.

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

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

On 11 February 2021, the Company reached an agreement with its co-owner Berjaya Property Ireland Limited on the sale of its remaining 25% equity share in Icelandair Hotels. The shares are expected to be delivered in Q2 2021 following closing of all conditions precedent. Following the transaction, Icelandair Hotels will work on rebranding its hotels and eventually cease the usage of the Icelandair trademark.

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 2021, its assets, liabilities and consolidated financial position as at 31 March 2021 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 2021 and confirm them by means of their signatures.

Reykjavík, 29 April 2021.

Board of Directors:

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

CEO:

Bogi Nils Bogason

Consolidated Income Statement and other Comprehensive Income for the period from 1 January to 31 March 2021

	Notes	2021 Q1	2020 Q1
Operating income			
Transport revenue	7	35,556	144,006
Aircraft and aircrew lease		11,009	26,695
Other operating revenue	7	10,763	38,280
		<u>57,328</u>	<u>208,981</u>
Operating expenses			
Salaries and salary related expenses		35,290	80,525
Aviation expenses		21,395	90,581
Other operating expenses		18,695	86,479
	8	<u>75,380</u>	<u>257,585</u>
Operating loss before depreciation and amortisation (EBITDA)		(18,052)	(48,604)
Depreciation and amortisation	9	28,157	43,714
Impairment		0	116,158
Operating loss (EBIT)		(46,210)	(208,476)
Finance income		2,114	14,019
Finance costs		(4,200)	(19,591)
Fair value changes		9,599	(51,007)
Net finance income (loss)	10	7,513	(56,579)
Share of (loss) profit of associates, net of tax	19	(1,464)	698
Loss before tax (EBT)		(40,162)	(264,357)
Income tax		10,062	24,132
Loss for the period		(30,100)	(240,225)
Other comprehensive profit (loss):			
Currency translation differences		92	(26,762)
Net profit (loss) on hedge of investment, net of tax		70	(11,500)
Cash flow hedges - effective portion of changes in fair value, net of tax		6,231	(12,785)
Other comprehensive profit (loss) for the period		6,393	(51,047)
Total comprehensive loss for the period		(23,707)	(291,272)
Loss attributable to:			
Owners of the Company		(30,061)	(231,536)
Non-controlling interest		(39)	(8,689)
Loss for the period		(30,100)	(240,225)
Total comprehensive loss attributable to:			
Owners of the Company		(23,668)	(282,597)
Non-controlling interest		(40)	(8,675)
Total comprehensive loss for the period		(23,707)	(291,272)
Earnings per share:			
Basic earnings per share in US cent per share		(0.10)	(4.26)
Diluted earnings per share in US cent per share		(0.10)	(4.26)

The notes on pages 9 to 21 are an integral part of these Interim Consolidation Financial Statements.

Consolidated Statement of Financial Position

as at 31 March 2021

	Notes	31.3.2021	31.12.2020
Assets			
Operating assets		472,419	498,438
Right-of-use assets		107,301	119,790
Intangible assets and goodwill		56,674	60,261
Investments in associates	19	8,126	9,603
Deferred cost		3,257	3,537
Receivables and deposits		18,619	21,686
Deferred tax asset		47,206	38,836
Non-current assets		713,602	752,151
Inventories		22,409	23,383
Trade and other receivables		121,072	99,334
Assets held for sale	6	5,098	0
Marketable securities		55,992	41,713
Cash and cash equivalents		53,466	117,657
Current assets		258,037	282,087
Total assets		971,639	1,034,238
Equity			
Share capital		212,969	212,969
Share premium		13,208	13,208
Reserves	11	15,251	8,373
Accumulated deficit		(30,544)	0
Equity attributable to equity holders of the Company		210,884	234,550
Non-controlling interest		(1,781)	(1,741)
Total equity		209,103	232,809
Liabilities			
Loans and borrowings	12	236,104	239,575
Lease liabilities	13	107,685	119,707
Payables		18,066	17,087
Derivatives used for hedging		2,509	5,958
Warrants	14	6,786	18,635
Non-current liabilities		371,150	400,962
Loans and borrowings	12	20,961	24,013
Lease liabilities	13	26,838	26,890
Warrants	14	11,431	9,129
Derivatives used for hedging		7,567	11,333
Liabilities held for sale	6	3,999	0
Trade and other payables		119,707	141,700
Deferred income	15	200,883	187,402
Current liabilities		391,386	400,467
Total liabilities		762,536	801,429
Total equity and liabilities		971,639	1,034,238

The notes on pages 9 to 21 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 2021

Attributable to equity holders of the Company

	Share capital	Share premium	Reserves*	Accumulated deficit	Total	Non-con- trolling interest	Total equity
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
1 January to 31 March 2021							
Equity 1 January 2021	212,969	13,208	8,373	0	234,550	(1,741)	232,809
Total comprehensive loss			6,393	(30,061)	(23,668)	(40)	(23,707)
Effects of profit or loss of subsidiaries			485	(485)			
Equity 31 March 2021	212,969	13,208	15,251	(30,544)	210,884	(1,781)	209,103

* See further in note 11.

The notes on pages 9 to 21 are an integral part of these Interim Consolidation Financial Statements.

Consolidated Statement of Cash Flows for the three months ended 31 March 2021

	Notes	2021 Q1	2020 Q1
Cash flows (to) from operating activities			
Loss for the period		(30,100)	(240,225)
Adjustments for:			
Depreciation and amortisation		28,157	43,714
Impairment		0	116,158
Expensed deferred cost		2,436	2,840
Net finance costs		2,086	5,572
Changes in fair value		(9,599)	51,007
Gain on sale of operating assets		(2,496)	0
Share in loss (gain) of associates	19	1,464	(698)
Deferred income tax		(10,062)	(24,132)
		(18,114)	(45,764)
Changes in:			
Inventories		983	1,400
Trade and other receivables		(17,537)	44,085
Trade and other payables		(21,667)	227,318
Deferred income		14,903	(144,014)
Cash (used in) from generated operating activities		(23,318)	128,789
Interest received		150	376
Interest paid		(4,012)	(6,021)
Net cash (used in) from operating activities		(45,294)	77,380
Cash flows used in investing activities:			
Acquisition of operating assets		(6,383)	(24,039)
Proceeds from sale of operating assets		11,797	0
Deferred cost		(1,985)	(3,599)
Acquisition of intangible assets		(31)	(341)
Non-current receivables, change		209	(1,853)
Cash attributable to assets held for sale	6	(451)	(4,920)
Marketable securities, change		(14,107)	0
Net cash used in investing activities		(10,951)	(34,752)
Cash flows used in financing activities:			
Proceeds from non-current borrowings		3,229	0
Repayment of non-current borrowings		(6,749)	(8,630)
Repayment of lease liabilities		(4,359)	(8,856)
Repayment of short term borrowings		0	(42,257)
Net cash used in financing activities		(7,879)	(59,743)
Change in cash and cash equivalents		(64,124)	(17,115)
Effect of exchange rate fluctuations on cash held		(67)	(4,339)
Cash and cash equivalents at beginning of the period		117,657	235,073
Cash and cash equivalents at 31 March		53,466	213,619
Investment and financing without cash flow effect:			
Acquisition of right-of-use assets		(26)	(357)
New or renewed leases		26	357

The notes on pages 9 to 21 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 2021 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 sectors. The Company is listed on the Nasdaq Main Market Iceland.

The Group's Consolidated Financial Statements as at and for the year ended 31 December 2020 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 address, <http://www.nasdaqomxnordic.com>.

2. Basis of accounting

The Condensed Consolidated Interim Financial Statements for the three months ended 31 March 2021 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 2020.

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 2020.

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 29 April 2021.

These Consolidated Interim Financial Statements are prepared on a going concern basis. Despite substantial uncertainty the Board of Directors believes that it is appropriate to prepare these Consolidated Interim Financial Statements on a going concern basis because of 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Due to COVID-19, the aviation and travel industries are facing tremendous uncertainty. Travel restrictions are still in place in most of the Group's important geographical segments. There is also great uncertainty around when demand for travel will return to normal levels, i.e. as they were prior to COVID-19. In preparation of the Consolidated Financial Statements, management adjusted its estimations and assumptions towards the current unprecedented circumstances.

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 2020.

4. Changes in accounting policies

A number of new standards are effective for annual periods beginning after 1 January 2021 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 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.

Passenger and cargo operations

The largest entity of the Group, the international and domestic passenger airline Icelandair ehf., including its subsidiary Icelandair Cargo, has been identified for financial reporting purposes as a reportable operating segment. Iceland's unique geographical position provides Icelandair with significant strategic advantages. This is encapsulated in Icelandair's ability to serve four markets simultaneously (to, from, via and within Iceland). Icelandair Cargo offers freight services by utilizing the capacity within aircraft of the Icelandair passenger network as well as with their own freighters.

The parent, Icelandair Group hf., is listed on the Nasdaq Iceland stock exchange and is the holding company. Iceeignir, a real estate company that holds the real estate of Icelandair Group, 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 and Fería, 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.

In Q1 2020 Icelandair Hotels was also classified within this segment. As of 3 April 2020, Icelandair Hotels are classified as an investment in associates.

Iceland Travel is classified within this segment. From 19 January 2021 Iceland Travel is in sales process which is currently ongoing and the Company expects to reach an agreement with a potential buyer in Q2 2021.

Notes, contd.:

5. Operating segments, contd.:

Reportable segments for the three months ended 31 March 2021

	Icelandair	Other Group entities	Total
External revenue	45,001	12,327	57,328
Inter-segment revenue	9,960	5	9,965
Segment revenue	54,961	12,332	67,293
Depreciation and amortisation	(23,404)	(4,753)	(28,157)
Segment EBIT	(44,049)	(2,161)	(46,210)
Finance income	5,447	145	5,592
Finance costs	(7,458)	(220)	(7,678)
Fair value change	9,599	0	9,599
Share of loss of equity accounted investees	(1,464)	0	(1,464)
Reportable segment loss before tax	(37,925)	(2,236)	(40,161)
Reportable segment assets	1,297,040	66,125	1,363,165
Capital expenditure	5,323	3,396	8,719
Liabilities	1,198,797	55,062	1,253,859

Reportable segments for the three months ended 31 March 2020

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
Capital expenditure	26,632	1,411	28,043
Liabilities	1,159,746	342,208	1,501,954

Notes, contd.:

5. Operating segments, contd.:

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

	2021 Q1	2020 Q1
Revenue		
Total revenue for reportable segments	67,293	233,566
Elimination of inter-segment revenue	(9,965)	(24,585)
Consolidated revenue	57,328	208,981
Profit or loss		
Consolidated loss before tax	(40,161)	(264,357)
Assets		
Total assets for reportable segments	1,363,165	1,802,157
Elimination of inter-segment assets	(391,526)	(409,967)
Consolidated total assets	971,639	1,392,190
Liabilities		
Total liabilities for reportable segments	1,253,859	1,501,954
Elimination of inter-segment liabilities	(491,323)	(300,971)
Consolidated total liabilities	762,536	1,200,983

Other material items

	Reportable segment totals	Adjust- ments	Consoli- dated totals
1.1.-31.3.2021			
Segment EBIT	(46,210)		(46,210)
Finance income	5,592	(3,478)	2,114
Finance costs	(7,678)	3,478	(4,200)
Depreciation and amortisation	(28,157)		(28,157)
Share of loss of associates	(1,464)		(1,464)
Capital expenditure	8,719	(320)	8,399
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	28,043	(63)	27,980

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.

Due to the COVID-19 pandemic and the associated wide-ranging travel restriction and decrease in travel demand, the numbers for Q1 2021 are not directly comparable to the numbers for Q1 2020.

	2021 Q1	2020 Q1
Revenue		
North America	5%	31%
Iceland	68%	29%
West Continental Europe	6%	14%
Scandinavia	3%	6%
United Kingdom	1%	6%
Other	17%	14%
Total revenue	100%	100%
Available Seat Kilometers (ASK'000) International flights	176,460	2,299,458
Available Seat Kilometers (ASK'000) Domestic flights	18,953	18,083
Freight Tonne Kilometer (FTK'000) Icelandair Cargo	33,694	30,082
Sold Block Hours Loftleidir Icelandic	3,224	7,058

Notes, contd.:

6. Assets held for sale

On 19 January 2021, the Group decided to initiate a process to sell Iceland Travel. From that date, Iceland Travel is classified as an asset held for sale. The sales process of Iceland Travel is currently ongoing.

Impacts on the consolidated financial statements

(i) Comprehensive income (loss)

	2021 Q1
Revenue	119
Elimination of inter-segment revenue	0
External revenue	119
Expenses	886
Elimination of expenses of inter-segment sales	57
External expenses	943
Loss from operating activities	(824)
Net finance cost	(69)
Share of profit of associates	0
	(893)
Income tax	178
Loss, net of tax	(715)
Basic earnings per share in US cent per share	0.00
Diluted earnings per share in US cent per share	0.00

(ii) Balance Sheet

	31.3.2021
Operating assets	24
Right-of-use assets	853
Intangible assets and goodwill	2,685
Deferred tax assets	594
Trade and other receivables	491
Cash and cash equivalents	451
Total assets	5,098
Loans and borrowings	166
Lease liabilities	789
Trade and other payables	1,927
Deferred income	1,117
Total liabilities	3,999
Net assets and liabilities	1,099

(iii) Cash flows from (used in)

	2021 Q1
Net cash to operating activities	(816)
Net cash used in investing activities	(4)
Net cash from financing activities	40
Net cash flows for the period	(780)

Notes, contd.:

7. Operating income

	2021 Q1	2020 Q1
Transport revenue is specified as follows:		
Passengers	11,195	116,532
Passenger ancillary revenue	2,566	14,183
Cargo	21,795	13,291
Total transport revenue	35,556	144,006
Other operating revenue is specified as follows:		
Sale in airport and hotels	259	12,176
Revenue from tourism	987	14,931
Aircraft and cargo handling services	3,743	5,194
Maintenance revenue	806	765
Gain on sale of operating assets	2,496	0
Other operating revenue	2,472	5,214
Total other operating revenue	10,763	38,280

8. Operating expenses

	2021 Q1	2020 Q1
Salaries and salary related expenses are specified as follows:		
Salaries	28,862	64,152
Contributions to pension funds	5,064	9,666
Other salary-related expenses	1,364	6,707
Total salaries and salary related expenses	35,290	80,525
Aviation expenses are specified as follows:		
Aircraft fuel	7,848	51,557
Aircraft lease	191	424
Aircraft handling, landing and communication	4,468	20,737
Aircraft maintenance expenses	8,888	17,863
Total aviation expenses	21,395	90,581
Other operating expenses are specified as follows:		
Operating cost of real estate and fixtures	1,150	3,343
Communication	4,070	6,665
Advertising	1,892	4,398
Booking fees and commission expenses	494	20,643
Cost of goods sold	192	1,990
Customer services	1,066	12,117
Travel and other employee expenses	2,102	10,262
Tourism expenses	22	5,948
Allowance for bad debt	1,044	12,294
Other operating expenses	6,663	8,819
Total other operating expenses	18,695	86,479

9. Depreciation and amortisation

	2021 Q1	2020 Q1
The depreciation and amortisation charge in profit or loss is specified as follows:		
Depreciation of operating assets	22,787	35,260
Depreciation of right-of-use assets	4,564	7,209
Amortisation of intangible assets	806	1,245
Depreciation and amortisation recognized in profit or loss	28,157	43,714

Notes, contd.:

10. Finance income and finance costs

	2021 Q1	2020 Q1
Finance income and finance costs are specified as follows:		
Interest income on cash and cash equivalents	163	183
Interest income on lease receivables	96	191
Other interest income	160	676
Net currency exchange gain	1,695	12,969
Finance income total	2,114	14,019
Interest expenses on loans and borrowings	2,377	3,216
Interest on lease liabilities	1,432	3,525
Interest on Pre-Delivery Payments for aircraft (PDP)	0	12,542
Other interest expenses	391	308
Finance costs total	4,200	19,591
Changes in fair value of warrants, see note 14	9,599	0
Changes in fair value of derivatives	0	(51,007)
Fair value changes	9,599	(51,007)
Net finance costs	7,513	(56,579)

11. Equity

	Hedging reserve	Translation reserve	Other reserves	Total reserves
Reserves are specified as follows:				
Reserves 1 January 2020	(28)	24,346	21,131	45,449
Changes during the period	(63,736)	(38,332)	(6,977)	(109,045)
Closed derivatives through P&L	51,007	0	0	51,007
Reserves 31 March 2020	(12,757)	(13,986)	14,154	(12,589)
Reserves 1 January 2021	(31,999)	23,679	16,693	8,373
Changes during the period	6,301	92	485	6,878
Reserves 31 March 2021	(25,698)	23,771	17,178	15,251

12. Loans and borrowings

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

	31.3.2021	31.12.2020
Non-current loans and borrowings:		
Secured bank loans	254,011	263,588
Unsecured loans	3,054	0
Total loans and borrowings	257,065	263,588
Current maturities	(20,961)	(24,013)
Total non-current loans and borrowings	236,104	239,575
Current loans and borrowings:		
Current maturities	20,961	24,013
Total current loans and borrowings	20,961	24,013
Total loans and borrowings	257,065	263,588

Notes, contd.:

12. Loans and borrowings, contd.:

Terms and debt repayment schedule:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance	
				31.3.2021	31.12.2020
Secured bank loans	USD	3.3%	2024-2028	164,578	164,404
Secured bank loans	EUR	0.9%	2028	64,568	67,559
Secured bank loans	ISK	2.8%	2026	24,865	31,625
Unsecured loan	ISK	3.7%	2026	3,054	0
Total interest-bearing liabilities				257,065	263,588

As at 31 March 2021, the Company had undrawn commercial credit lines with local banks in the amount of USD 52 million.

Additionally, the Company has access to a government guaranteed credit facility in the amount of USD 120 million. The facility is arranged through two local commercial banks and is 90% guaranteed by the government. The facility was undrawn at 31 March 2021.

Repayments of loans and borrowings are specified as follows:

	31.3.2021	31.12.2020
Repayments in 2021 (9 months)(2020: 12 months)	15,769	24,013
Repayments in 2022	33,479	33,450
Repayments in 2023	41,581	44,080
Repayments in 2024	51,778	46,908
Repayments in 2025	28,901	28,120
Subsequent repayments	85,557	87,017
Total loans and borrowings	257,065	263,588

According to the Company's restructured financial covenants, that took affect at the end of Q3 2020, the Company's equity ratio shall be a minimum of 8-10% in terms of loan agreements with lenders and a minimum of 2% in terms of the government guaranteed credit facility. The Company was not in breach of the covenant at 31 March 2021.

13. Lease liabilities

This note provides information of the Group's lease liabilities, which are measured at amortized cost, and changes during the year.

	Currency	Interest rates	Year of maturity	Total remaining balance	
				31.3.2021	31.12.2020
Lease liabilities	USD	4.4%	2021-2030	120,111	131,294
Lease liabilities indexed	ISK	4.1%	2021-2038	12,480	13,217
Lease liabilities	GBP	2.2%	2021-2025	1,185	1,237
Lease liabilities	other	2.9%	2021-2028	747	849
Current maturity				(26,838)	(26,890)
Total lease liabilities				107,685	119,707

Repayments of lease liabilities are specified as follows:

Repayments in 2021 (9 months)(2020: 12 months)	17,509	26,890
Repayments in 2022	25,355	22,223
Repayments in 2023	20,769	21,649
Repayments in 2024	17,875	18,542
Repayments in 2025	16,926	17,426
Subsequent repayments	36,089	39,867
Total loans and borrowings	134,523	146,597

Notes, contd.:

13. Lease liabilities, contd.:

Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable by the Group only and not by the lessors. The Group assesses whether such an option is reasonably certain to be exercised at the lease commencement date. A reassessment is made in case of a significant event or significant changes in circumstances within the Group's control.

The Group has entered into sale and leaseback agreements for three aircraft that will be delivered in Q2 2021. The lease liability is expected to amount to approx. USD 118.0 million. See further note 17.

14. Warrants liabilities

Warrants liabilities are specified as followed:

Assumptions	ICEAIRW 130821	ICEAIRW 180222	ICEAIRW 120822
Issue date	18.9.2020	18.9.2020	18.9.2020
Exercise period end date	13.8.2021	18.2.2022	12.8.2022
Share price (ISK) at issue date	1.00	1.00	1.00
Share price (ISK) at reporting date	1.40	1.40	1.40
Exercise price (ISK)	1.13	1.22	1.30
Interest rate (annual)	15.0%	15.0%	15.0%
First interest date	23.9.2020	23.9.2020	23.9.2020
Volatility (annual)	89.4%	79.2%	79.2%
Risk free rate	1.3%	1.3%	1.3%
Time to maturity (Years)	0.37	0.88	1.37
Fair value per warrant (ISK) at reporting date	0.36	0.40	0.45

The warrants outstanding and the fair value (USD) of each class of warrants on the respective exercise dates are as follows:

Warrants liabilities	ICEAIRW 130821	ICEAIRW 180222	ICEAIRW 120822	Total
Fair value at 31.12.2020	9,129	9,002	9,633	27,764
Gain on change in fair value of warrant liability	(3,764)	(2,968)	(2,867)	(9,599)
Foreign exchanges difference	16	16	20	52
Fair value as of period ending	5,381	6,050	6,786	18,217
Non-current warrants liabilities	0	0	6,786	6,786
Current warrants liabilities	5,381	6,050	0	11,431

The fair value of the warrants at issue date, amounting to USD 16.2 million was recognized through retained earnings and as a liability. During the period from the issue date until 31 March 2021 the Company recognized loss on changes in fair value of its warrants liabilities in the amount of USD 0.9 million.

The warrants liabilities are considered Level 2 liabilities on the fair value hierarchy as the determination of fair value includes various assumptions about the future activities and the Company's share price and historical volatility as inputs. No warrants were exercised during the period ending 31 March 2021.

Notes, contd.:

15. 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:	30.3.2021	31.12.2020
Sold unused tickets and vouchers	172,303	157,753
Frequent flyer points	21,699	20,641
Other prepayments	6,881	9,008
Total deferred income	200,883	187,402

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. A substantial percentage of passengers have accepted vouchers for future travel in lieu of cash refunds owed to them as a result of cancelled flights. The total amount of issued vouchers at the end of the reporting period was USD 96.6 million. These vouchers are generally valid for 3 years from the date of issuance.

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 recognized as deferred income.

16. 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:

	31.3.2021		31.12.2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives used for hedging	(10,076)	(10,076)	(17,291)	(17,291)
Unsecured bond issue	(3,054)	(3,011)	0	0
Secured loans	(254,011)	(264,971)	(263,588)	(279,654)
Warrants	(18,217)	(18,217)	(27,764)	(27,764)
Lease liabilities	(134,523)	(134,523)	(146,597)	(146,597)
Total	(419,881)	(430,798)	(455,240)	(471,306)

17. Capital commitments

In 2013, the Group and the Boeing Company signed an agreement for the purchase of sixteen Boeing 737 MAX8 and MAX9 aircraft with an option to purchase an additional eight aircraft. The Group has taken delivery of six aircraft.

In December 2018 the Group secured a Pre-Delivery Payment (PDP) financing agreement with BOC Aviation (BOCA) for eleven undelivered B737 MAX aircraft. The agreement with BOCA secured financing of PDP's for all undelivered aircraft under the Boeing agreement, as well as a sale and leaseback of two aircraft, of which one has already been delivered with the other one to be delivered in Q2 2021.

In August 2020, the Group reached a settlement with Boeing on compensation for the damages caused by the 22 month long MAX grounding. The total number of aircraft under the purchase agreement from 2013 was reduced from sixteen to twelve, of which six aircraft remain undelivered. The PDP financing agreement with BOCA was amended accordingly and furthermore provides a backstop financing option in the form of sale and leaseback for the remaining unfinanced aircraft.

Notes, contd.:

17. Capital commitments, contd.:

The remaining deliveries of Boeing 737 MAX aircraft to the Group are scheduled as follows:

	Q2 2021	Q4 2021/ Q1 2022	Total
Boeing 737 MAX8	1	2	3
Boeing 737 MAX9	2	1	3
Total	3	3	6

The Group has already secured financing through sale and leaseback agreements of the three aircraft that are scheduled for delivery in Q2 2021. Backstop financing option remains in place for the three remaining aircraft.

18. Group entities

The Company held seven subsidiaries at the end of March 2021.

	Share
Passenger and cargo operations	
A320 ehf.	100%
IceCap Insurance PCC Ltd.	100%
Iceignir ehf.	100%
Icelandair ehf. *	100%
Other Group entities	
Loftleiðir - Icelandic ehf.	100%
FERIA ehf. (VITA)	100%
Iceland Travel ehf. **	100%

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

** See note 6.

The subsidiaries further own ten subsidiaries that are also included in the Consolidated Financial Statements. Three of those have non-controlling shareholders.

19. Investment in associates

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

	Ownership	Carrying amount 31.3.2021	Share of profit/loss in associates 1.1.-31.3.2021	Carrying amount 31.12.2020	Share of profit/loss in associates 1.1.-31.3.2020
Cabo Verde Airlines	36%	0	0	0	0
EBK ehf.	25%	1,091	(141)	1,230	131
ITF 1 slhf.	29%	6,281	(26)	6,291	572
Icelandair Hotels	25%	(1,326)	(1,299)	13	0
Lindarvatn ehf.	50%	1,902	4	1,893	(7)
Other investments		178	(2)	176	2
Total investments in associates		8,126	(1,464)	9,603	698

The book value of the Group's share in Cabo Verde Airlines (TACV) has been fully expensed. Reserves have been made against all receivables on TACV and therefore, the Group has no further exposure on TACV. Negative developments in TACV operations might impact future operations of Loftleiðir Icelandic due to leased aircraft.

EBK ehf. operates jet fuel tank storage facilities, serving fuel to suppliers and airlines at Keflavík airport.

ITF 1 slhf. is a fund managed by Landsbréf. The Fund's purpose is to invest in Icelandic companies focusing on entertainment and leisure activities for foreign tourists. The main focus is on full-year projects which contribute to the better utilization of the infrastructure in the Icelandic Tourism industry.

Notes, contd.:

19. Investment in associates, contd.:

The Group's 25% share in Icelandair Hotels is classified as an investment in associates as of 3 April 2020 when 75% of shares in the entity were delivered to the buyer, Berjaya Land Berhad (Berjaya). On 11 February 2021, the Group reached an agreement with Berjaya regarding sale of its remaining 25% share in the hotel company. The purchase price for the remaining shares is USD 3.4 million and will be payable on delivery when all conditions precedent of the agreement have been fulfilled.

In its capacity as co-owner of Icelandair Hotels, the Company had issued guarantees on certain obligations for Icelandair Hotels. The guarantees were provided in solidum. The Company's 25% share amounts to approx. USD 4.2 million.

Lindarvatn ehf. is the owner of a property at Thorvaldsensstræti in downtown Reykjavík and other properties located near Austurvöllur which are being rebuilt as a hotel.

20. Ratios

The Group's primary ratios are specified as follows:

	31.3.2021	31.12.2020
Current ratio	0.66	0.70
Equity ratio	0.22	0.23
Equity ratio without warrants	0.23	0.25
Intrinsic value of share capital	0.98	1.09

