Icelandair Group hf.

Condensed Consolidated
Interim Financial Statements
1 January - 31 March 2018

USD

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

Contents

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 2018 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 2018 amounted to USD 34.5 million. Total comprehensive loss for the period was USD 26.9 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 554.9 million, including share capital in the amount of USD 39.1 million. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity.

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements for the three months ended 31 March 2018 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. The condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent auditors.

According to our best knowledge it is our opinion that the condensed consolidated interim financial statements give a true and fair view of the financial performance of the Group for the three month period ended 31 March 2018, its assets, liabilities and consolidated financial position as at 31 March 2018 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 2018 and confirm them by means of their signatures.

Reykjavík, 30 April 2018.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board
Ásthildur M. Otharsdóttir
Guðmundur Hafsteinsson
Heiðrún Jónsdóttir
Ómar Benediktsson

CEO:

Björgólfur Jóhannsson

Consolidated Statement of Comprehensive Income
for the period from 1 January to March 31 2018

	Notes	2018 1.1.-31.3.	2017 1.1.-31.3. *Restated
Operating income			
Transport revenue	6	170.795	148.759
Aircraft and aircrew lease		33.394	20.627
Other operating revenue	6	63.430	52.689
		267.619	222.075
Operating expenses			
Salaries and other personnel expenses		113.129	86.261
Aviation expenses		100.692	81.546
Other operating expenses		72.009	64.245
	7	285.830	232.052
Operating loss before depreciation and amortisation (EBITDA)		(18.211)	(9.977)
Depreciation and amortisation		(28.002)	(25.887)
Operating loss before net finance income (costs) (EBIT)		(46.213)	(35.864)
Finance income		5.601	1.466
Finance costs		(4.193)	(3.410)
Net finance income (costs)	8	1.408	(1.944)
Share of profit of associates, net of tax		1.266	470
Loss before tax		(43.539)	(37.338)
Income tax		9.011	7.454
Loss for the period		(34.528)	(29.884)
Other comprehensive loss:			
Foreign currency translation differences of foreign operations		(243)	754
Effective portion of changes in fair value of cash flow hedge, net of tax		7.826	(13.955)
Other comprehensive profit (loss) for the period		7.583	(13.201)
Total comprehensive loss for the period		(26.945)	(43.085)
Loss attributable to:			
Owners of the Company		(34.429)	(29.949)
Non-controlling interest		(99)	65
Loss for the period		(34.528)	(29.884)
Total Comprehensive loss attributable to:			
Owners of the Company		(26.865)	(43.909)
Non-controlling interest		(80)	824
Total comprehensive loss for the period		(26.945)	(43.085)
Loss per share:			
Basic loss per share in US cent per share		(0,72)	(0,61)
Diluted loss per share in US cent per share		(0,72)	(0,61)

* See note 4

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Interim Financial Statements of Icelandair Group hf. 31 March 2018 4 Amounts are in USD thousands

Consolidated Statement of Financial Position
as at 31 March 2018

	Notes	31.3.2018	31.12.2017 *Restated
Assets			
Operating assets	9	775.018	652.705
Intangible assets and goodwill		178.403	180.422
Investments in associates		31.923	29.629
Receivables and deposits		50.461	97.030
Non-current assets		1.035.805	959.786
Inventories		28.725	26.801
Derivatives used for hedging		27.719	18.450
Trade and other receivables		281.597	186.027
Assets held for sale		7.500	7.500
Short term investments		14.559	4.087
Cash and cash equivalents		191.257	221.191
Current assets		551.357	464.056
Total assets		1.587.162	1.423.842
Equity			
Share capital		39.053	39.532
Share premium		133.513	140.519
Reserves	10	96.515	127.407
Retained earnings		284.522	287.749
Equity attributable to equity holders of the Company		553.603	595.207
Non-controlling interest		1.258	1.338
Total equity		554.861	596.545
Liabilities			
Loans and borrowings	11	281.206	280.254
Payables		16.402	17.239
Deferred tax liabilities		52.784	60.885
Non-current liabilities		350.392	358.378
Loans and borrowings	11	48.692	9.287
Derivatives used for hedging		645	1.383
Trade and other payables		256.051	232.188
Deferred income		376.521	226.061
Current liabilities		681.909	468.919
Total liabilities		1.032.301	827.297
Total equity and liabilities		1.587.162	1.423.842

* See note 4

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Interim Financial Statements of Icelandair Group hf. 31 March 2018 5 Amounts are in USD thousands

Consolidated Statement of Changes in Equity
for the period from 1 January to 31 March 2018

	Attributable to equity holders of the Company						
1 January to 31 March 2017	**Share capital**	**Share premium**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Equity 1.1.2017	40.576	154.705	114.849	257.696	567.826	387	568.213
Impact of IFRS 15 correction				5.129	5.129		5.129
Restated Equity 1.1.2017	40.576	154.705	114.849	262.825	572.955	387	573.342
Purchase of treasury shares	(664)	(9.355)			(10.019)		(10.019)
Total comprehensive loss			(13.960)	(34.960)	(48.920)	824	(48.096)
Effects of profit or loss and dividend from subsidiaries			(23.163)	23.163			
Dividend (0.10 US cent per share) .				(5.044)	(5.044)		(5.044)
Equity 31 March 2017	39.912	145.350	77.726	245.984	508.972	1.211	510.183

1 January to 31 March 2018							
Equity 1.1.2018	39.532	140.519	127.407	282.739	590.197	1.338	591.535
Impact of IFRS 15 correction				5.010	5.010		5.010
Restated Equity 1.1.2018	39.532	140.519	127.407	287.749	595.207	1.338	596.545
Purchase of treasury shares	(479)	(7.006)			(7.485)		(7.485)
Total comprehensive loss			7.564	(34.429)	(26.865)	(80)	(26.945)
Effects of profit or loss and dividend from subsidiaries			(38.456)	38.456			
Dividend (0.15 US cent per share) .				(7.254)	(7.254)		(7.254)
Equity 31 March 2018	39.053	133.513	96.515	284.522	553.603	1.258	554.861

Information on changes in reserves are provided in note 10.

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Interim Financial Statements of Icelandair Group hf. 31 March 2018 6 Amounts are in USD thousands

Consolidated Statement of Cash Flows for the three months ended 31 March 2018

	Notes	2018 1.1.-31.3	2017 1.1.-31.3 *Restated
Cash flows from operating activities			
Loss for the period		(34.528)	(29.884)
Adjustments for:			
Depreciation and amortisation		28.002	25.887
Expensed deferred cost		1.998	1.941
Net finance costs		(1.408)	1.944
Gain on the sale of operating assets		(3.094)	(70)
Share in profit of associates		(1.266)	(471)
Tax expense		(9.011)	(7.454)
		(19.307)	(8.107)
Changes in:			
Inventories, increase		(1.924)	(1.146)
Trade and other receivables, increase		(82.758)	(7.678)
Trade and other payables, decrease		25.083	(2.926)
Deferred income, increase		150.460	149.382
Cash generated from operating activities		90.861	137.632
Interest received		715	215
Interest paid		(5.154)	(4.243)
Net cash from operating activities		67.115	125.497
Cash flows used in investing activities:			
Acquisition of operating assets		(136.982)	(44.760)
Proceeds from the sale of operating assets		52.157	160
Acquisition of intangible assets		(664)	(1.680)
Capitalised deferred cost		(1.232)	(840)
Non-current receivables, change		(31.966)	(29.236)
Short term investments, change		(10.472)	574
Net cash used in investing activities		(129.159)	(75.782)
Cash flows from financing activities:			
Purchase of treasury shares		(7.483)	(10.019)
Dividend paid		0	(5.044)
Proceeds from non-current borrowing		0	40.000
Repayment of non-current borrowings		(2.664)	(3.695)
Proceeds from short term borrowings		40.949	2.278
Net cash from financing activities		30.802	23.520
(Decrease) increase in cash and cash equivalents		(31.242)	73.235
Effect of exchange rate fluctuations on cash held		1.308	48
Cash and cash equivalents at beginning of the period		221.191	226.889
Cash and cash equivalents at 31 March		191.257	300.172
Investment and financing without cash flow effect:			
Acquisition of operating assets		(52.506)	0
Non-current receivables		52.506	0
Dividend issued		(7.254)	0
Trade and other payables		7.254	0

* See note 4

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

Interim Financial Statements of Icelandair Group hf. 31 March 2018 7 Amounts are in USD thousands

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 2018 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group´s interests in associates. The Group primarily operates in the airline transportation and tourism industry. The Company is listed on the Nasdaq OMX Iceland.

The Group´s consolidated financial statements as at and for the year ended 31 December 2017 are available upon request from the Company's registered office at Reykjavíkurflugvöllur in Reykjavík, Iceland or at its website address, www.icelandairgroup.is and at The Icelandic Stock Exchange website, www.nasdaqomx.com.

2. Basis of accounting

These interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting.* They do not include all the information requred 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 2017.

These interim financial statements were approved for issue by the Board of Directors on 30 April 2018.

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.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017.

a. Measurement of fair values

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

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

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

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

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

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

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

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

4. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated interim financial statements.

IFRS 9 “Financial instruments” is effective as of January 1, 2018, and replaces IAS 39 “Financial instruments: Recognition and Measurement”. The standard’s three main projects have been classification and measurement, impairment and hedge accounting. During 2017 Icelandair Group performed a review and an assessment of the effects on the financial assets and financial liabilities. There is no impact of IFRS 9 on the financial reporting for The Group and therefore no adjustment is needed.

The Group has adopted IFRS 15 *Revenue from Contracts with Customer* with a date of initial application of 1 January 2017. As a result, the Group has changed its accounting policy for revenue recognition as detailed below.

The Group applied IFRS 15 retrospectively (subject to practical expedient in the standard) with adjustments to all periods presented. The details and quantitative impact of the changes in accounting policies are disclosed below.

a. Service fees

For the charge of service fee, revenue was previously recognised when booking was made. Under IFRS 15, as there is only one performance obligation, revenue is recognised on the date of the flight.

b. Change fees

For the charge of change fee, revenue was previously recognised at the point the modification was made and the passanger charged. Under IFRS 15, while the change service may have economic value, it is highly interrelated with the service of providing the flight, and is not considered a distinct service. Change fee revenue is therefore recognised at the date of the flight.

c. Package tours

For sold package tours, revenue was previously recognised at first day of travel. Under IFRS 15, the total consideration in the service contracts is allocated to all services based on their stand-alone selling prices and revenue recognised as performance obligations are satisfied over time.

d. Commission, credit card fees and booking fees

The Group previously recognised commission fees, credit card fees and booking fees as selling expenses when they incurred. Under IFRS 15, the Group capitalises these fees as costs of obtaining a contract when they are incremental and - if they are expected to be recovered - it amortises them consistently with the pattern of revenue for the related contract.

e. Impacts on financial statements

(i) Consolidated Statement of Financial Position

The following table shows the change to the line items of the 31 December 2017 Consolidated statement of financial position by the adoption of IFRS 15:

	31.12.2017 Original	Adjustment IFRS 15	31.12.2017 Restated
Assets:			
Current assets			
Trade and other receivables	177.275	8.752	186.027
Current assets	455.304	8.752	464.056
Total assets	1.415.090	8.752	1.423.842

4. Changes in accounting policies (contd.)

Equity and liabilities

Equity			
Retained earnings	282.739	5.010	287.749
Total equity	282.739	5.010	287.749
Non-current liabilities			
Deferred tax liabilities	59.633	1.252	60.885
Total non-current liabilities	59.633	1.252	60.885
Current liabilities			
Deferred income	223.571	2.490	226.061
Total current liabilities	466.429	2.490	468.919
Total equity and liabilities	1.415.090	8.752	1.423.842

(ii) Consolidated Statement of Comprehensive Income

The following table shows the change to the line items of the 31 March 2017 Consolidated Statement of Comprehensive Income.

	2017 1.1.-31.3. Original	Adjustment IFRS 15	2017 1.1.-31.3. Restated
Operating income			
Transport revenue	149.056	(297)	148.759
Total operating income	222.372	(297)	222.075
Operating expenses			
Other operating expenses	70.806	(6.561)	64.245
Total operating expenses	238.613	(6.561)	232.052
Operating loss before depr. and amortisation (EBITDA)	(16.241)	6.264	(9.977)
Loss before income tax	(43.602)	6.264	(37.338)
Income tax	8.707	(1.253)	7.454
Loss for the period	(34.895)	5.011	(29.884)

(iii) Consolidated Statement of Cash Flows

The following table shows the change to the line items of the 31 March 2017 Consolidated Statement of Cash Flows

	2017 1.1.-31.3. Original	Adjustment IFRS 15	2017 1.1.-31.3. Restated
Cash flows from operating activities			
Loss for the period	(34.895)	5.011	(29.884)
Tax expense	(8.707)	1.253	(7.454)
Trade and other receivables, increase	(1.117)	(6.561)	(7.678)
Trade and other payables, (decrease) increase	(4.476)	1.550	(2.926)

4. Changes in accounting policies (contd.)

(iv) Impact of adopting IFRS 15 on the Group's interim Consolidated Statement of Comprehensive Income as at 31 March 2018

The following table shows the impact by the adoption of IFRS 15 on the Consolidated Statement of Comprehensive Income for the three months ended 31 March 2018:

	Amounts without adoption of IFRS 15	Adjustment IFRS 15	31.3.2018 As reported
Operating income			
Transport revenue	171.505	(710)	170.795
Total operating income	268.329	(710)	267.619
Operating expenses			
Other operating expenses	78.726	(6.717)	72.009
Total operating expenses	292.547	(6.717)	285.830
Operating loss before depr. and amortisation (EBITDA)	(24.218)	6.007	(18.211)
Loss before income tax	(49.546)	6.007	(43.539)
Income tax	10.212	(1.201)	9.011
Loss for the period	(39.334)	4.806	(34.528)

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 three segments; International flight operations, Aviation investments and Tourism investments.

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.

International flight operations

The International flight operations are 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. In 2017 Icelandair's international route networking connected 18 Cities in North America with 29 Cities in Europe and by that offering connectivity between 450 city pairs within the network. Additionally the route network is an invaluable asset for the Icelandic Tourism offering direct flights to Iceland from around 50 cities. Icelandic people and businesses also utilize the network and make a constant use of the frequent and diverse connections to Europe and North America.

The network is very important for the export and import industries in Iceland, wherein Icelandair Cargo utilizes the network and it's own freighters to offer reliable, frequent and quick transport of cargo.

Aviation investments

There are three subsidiaries within the Aviation investment segment. Loftleidir Icelandic, the leasing arm of the group, Air Iceland Connect, the domestic airline and VITA an outgoing tour operator. They have access to the systems, vast experience and knowhow within Icelandair and the International Flight Operations bringing economy of scale to the whole operations.

Tourism investments

There are two subsidiaries within the Tourism investment segment, Icelandair Hotels and Iceland Travel. Icelandair Hotels offers quality hotels both in Reykjavík and around the countryside. Iceland Travel is the largest incoming tour operator in Iceland. Both companies utilize Icelandair's international route network on a whole year basis.

Geographic information

The geographic information analyses the Group´s revenue as the majority of the Group's clients are outside of Iceland. 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:

	2018 **1.1.-31.3.**	**2017** **1.1.-31.3.**
Revenues		
North America	29%	34%
Iceland	38%	27%
West Continental Europe	9%	10%
Scandinavia	6%	6%
United Kingdom	9%	10%
Other	9%	13%
Total revenues	100%	100%

Interim Financial Statements of Icelandair Group hf. 31 March 2018 12 Amounts are in USD thousands

5. contd.:

Reportable segments for the three months ended 31 March 2018

	International flight operations	Aviation investment	Tourism investment	Total
External revenue	179.836	52.282	35.501	267.619
Inter-segment revenue	24.462	1.443	1.495	27.400
Segment revenue	204.298	53.725	36.996	295.019
Segment EBITDAR*	(15.929)	10.265	(636)	(6.300)
Operating lease expenses	(2.445)	(6.210)	(3.256)	(11.911)
Segment EBITDA	(18.374)	4.055	(3.892)	(18.211)
Finance income	7.217	61	8	7.286
Finance costs	(3.358)	(1.733)	(787)	(5.878)
Depreciation and amortisation	(24.220)	(2.223)	(1.559)	(28.002)
Share of profit of equity accounted investees	1.266	0	0	1.266
Reportable segment loss before tax	(37.469)	160	(6.230)	(43.539)
Reportable segment assets	2.053.062	131.223	70.421	2.254.706

Reportable segments for the three months ended 31 March 2017

	International flight operations	Aviation investment	Tourism investment	Total
External revenue	154.596	35.594	31.885	222.075
Inter-segment revenue	17.654	1.208	1.190	20.052
Segment revenue	172.250	36.802	33.075	242.127
Segment EBITDAR*	(7.444)	6.861	(1.042)	(1.625)
Operating lease expenses	(2.253)	(3.513)	(2.586)	(8.352)
Segment EBITDA	(9.697)	3.348	(3.628)	(9.977)
Finance income	2.069	74	88	2.231
Finance costs	(2.600)	(1.262)	(313)	(4.175)
Depreciation and amortisation	(22.369)	(2.325)	(1.193)	(25.887)
Share of profit of equity accounted investees	352	0	118	470
Reportable segment loss before tax	(32.245)	(165)	(4.928)	(37.338)
Reportable segment assets	1.872.841	114.612	50.729	2.038.182

*EBITDAR means EBITDA before operating lease expenses.

Interim Financial Statements of Icelandair Group hf. 31 March 2018 13 Amounts are in USD thousands

Notes, contd.:

5. contd.:

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

	2018 1.1.-31.3.	2017 1.1.-31.3.
Revenue		
Total revenue for reportable segments	295.019	242.127
Elimination of inter-segment revenue	(27.400)	(20.052)
Consolidated revenue	267.619	222.075
Profit or loss		
Consolidated loss before tax	(43.539)	(37.338)

Other material items	Reportable segment totals	Adjust-ments	Consoli-dated totals
1.1.-31.3. 2018			
Segment EBITDAR	(6.300)		(6.300)
Segment EBITDA	(18.211)		(18.211)
Finance income	7.286	(1.685)	5.601
Finance costs	(5.878)	1.685	(4.193)
Depreciation and amortisation	(28.002)		(28.002)
Share of profit of associates	1.266		1.266
Capital expenditure	191.384		191.384
1.1.-31.3. 2017			
Segment EBITDAR	(1.625)		(1.625)
Segment EBITDA	(9.977)		(9.977)
Finance income	2.231	(765)	1.466
Finance costs	(4.175)	765	(3.410)
Depreciation and amortisation	(25.887)		(25.887)
Share of profit of associates	470		470
Capital expenditure	47.280		47.280

Interim Financial Statements of Icelandair Group hf. 31 March 2018 14 Amounts are in USD thousands

Notes, contd.:

6. Operating income

Transport revenue is specified as follows:

	2018 1.1.-31.3.	Restated 2017 1.1.-31.3.
Passengers	155.810	136.798
Cargo and mail	14.985	11.961
Total transport revenue	170.795	148.759

With the implementation of the new IFRS 15 revenue recognition standard, baggage fees that are sold as a seperate component are now included in passenger revenue but were before included in cargo and mail. Amounts from prior year has been restated accordingly.

Other operating revenue is specified as follows:

Sale in airplanes and hotels	22.180	21.570
Revenue from tourism	24.735	19.803
Aircraft and cargo handling services	5.753	3.998
Maintenance revenue	819	652
Gain on sale of operating assets	3.094	70
Other operating revenue	6.849	6.596
Total other operating revenue	63.430	52.689

7. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	73.107	56.548
Salary-related expenses	23.350	15.823
Other personnel expenses	16.672	13.890
Total salaries and personnel expenses	113.129	86.261

Aviation expenses are specified as follows:

Aircraft fuel	49.547	37.857
Aircraft lease	8.304	5.575
Aircraft handling, landing and communication	24.169	20.286
Aircraft maintenance expenses	18.672	17.828
Total aviation expenses	100.692	81.546

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures	8.697	6.509
Communication	5.883	5.979
Advertising	8.583	8.490
Booking fees and commission expenses	10.212	9.537
Cost of goods sold	6.035	5.871
Customer services	8.572	6.186
Tourism expenses	15.978	12.717
Allowance for bad debt	(917)	176
Other operating expenses	8.966	8.780
Total other operating expenses	72.009	64.245

Interim Financial Statements of Icelandair Group hf. 31 March 2018 15 Amounts are in USD thousands

8. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2018 1.1.-31.3.	2017 1.1.-31.3.
Interest income on bank deposits	431	153
Other interest income	354	459
Net foreign exchange gain	4.816	854
Finance income total	5.601	1.466
Interest expenses on loans and borrowings	3.950	3.183
Other interest expenses	243	227
Net foreign exchange loss	0	0
Finance costs total	4.193	3.410
Net finance costs	1.408	(1.944)

9. Operating assets

Aquisition of operating assets in the first three months of 2018 amounted to USD 189.5 million. Included are 3 Boeing 737 Max8 aircraft, 2 Boeing 757 aircraft, overhaul of own engines and aircraft spare parts in the amount of USD 173.3 million.

10. Equity

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Other reserves	Total reserves
Reserves 1.1.2017	16.423	34.524	63.902	114.849
Changes during the period	(13.955)	(5)	(23.163)	(37.123)
Reserves 31.3.2017	2.468	34.519	40.739	77.726
Reserves 1.1.2018	13.914	42.240	71.253	127.407
Changes during the period	7.826	(262)	(38.456)	(30.892)
Reserves 31.3.2018	21.740	41.978	32.797	96.515

11. Loans and borrowings

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

	31.3.2018	31.12.2017
Non-current loans and borrowings are specified as follows:		
Secured bank loans	66.948	65.786
Unsecured loans	262.950	223.755
	329.898	289.541
Current maturities	(48.692)	(9.287)
Total non-current loans and borrowings	281.206	280.254

Terms and debt repayment schedule:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance 31.3.2018	31.12.2017
Secured bank loans	USD	5,2%	2018-2024	11.008	12.202
Secured bank loans	EUR	2,7%	2026	7.501	7.285
Secured bank loans	ISK	5,2%	2019-2036	43.311	41.146
Secured bank loans, indexed	ISK	4,3%	2023	1.810	1.706
Unsecured bond issue	USD	4,9%	2020-2021	212.446	212.361
Unsecured bond issue, indexed	ISK	5,7%	2023	10.342	11.394
Unsecured bank loans - short term	USD	5,4%	2018	40.162	0
Secured bank loans - short term	USD	5,2%	2018	3.318	3.447
Total interest-bearing liabilities				329.898	289.541

Interim Financial Statements of Icelandair Group hf. 31 March 2018 16 Amounts are in USD thousands

12. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	2018	2017
Repayments in 2018 (9 months)(2017: 12 months)	46.582	9.287
Repayments in 2019	43.893	41.723
Repayments in 2020	27.165	27.015
Repayments in 2021	193.689	193.534
Repayments in 2022	7.743	7.573
Subsequent repayments	10.826	10.409
Total loans and borrowings	329.898	289.541

13. Financial instruments and fair values

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

	31.3.2018		31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives, included in loans and receivables	27.074	27.074	17.067	17.067
Short term investments	14.559	14.559	4.087	4.087
Unsecured bond issue	(262.950)	(283.084)	(223.755)	(246.238)
Secured loans	(66.948)	(69.639)	(65.786)	(68.504)
Total	(288.265)	(311.090)	(268.387)	(293.588)

14. Off-balance sheet items

As a lessee the Group has in place operating leases for storage facilities, hotels, equipment, the longest until the year 2041. The Group has also in place operating leases for aircraft, the longest until the year 2027. At the end of March 2018 the leases are payable as follows in nominal amounts for each year:

	Real estate	Aircraft	Other	Total 31.3.2018
In Q2 - Q4 2018	18.311	14.793	10.735	43.839
In the year 2019	27.570	24.885	4.794	57.249
In the year 2020	27.126	25.568	4.286	56.980
In the year 2021	26.224	20.412	3.050	49.686
In the year 2022	25.870	18.882	3.206	47.958
Subsequent	307.174	80.851	42.548	430.573
Total	432.275	185.391	68.619	686.285

Interim Financial Statements of Icelandair Group hf. 31 March 2018 17 Amounts are in USD thousands

15. Capital commitments

In 2013 Icelandair Group and Boeing signed an agreement for the purchase of sixteen 737 MAX8 and 737 MAX9 aircraft with an option to purchase additional eight aircraft.

In March 2018 Icelandair took delivery of the first three 737 MAX8 aircraft from Boeing. Two of them have been financed with a JOLCO (Japanese Operating Lease with Call Option) and the third was sold and leased back from a lessor for a period of 8 years and 8 months. The sale generated a profit of 2.1 million USD which is included in operating income. The lease obligation from the contract is included in note 14.

The delivery plan for future aircraft is as follows:

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

16. Group entities

The Company held ten subsidiaries at the end of March 2018 which is a decrease of two from year end 2017. In beginning of January 2018, the Company merged IGS ehf. with Icelandair and sold Icelandair Cargo ehf. to Icelandair ehf. The subsidiaries included in the consolidated interim financial statements are as follows:

	Share
International Flight Operations:	
A320 ehf.	100%
Fjárvakur - Icelandair Shared Services ehf.	100%
IceCap Ltd., Guernsey	100%
Iceeignir ehf.	100%
Icelandair ehf.	100%
Aviation investments:	
Air Iceland ehf.	100%
Feria ehf.	
Loftleiðir - Icelandic ehf.	100%
Tourism investments:	
Iceland Travel ehf.	100%
Icelandair Hotels ehf.	100%

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

Interim Financial Statements of Icelandair Group hf. 31 March 2018 18 Amounts are in USD thousands

17. Ratios

The Group's primary ratios are specified as follows:

	31.3.2018	31.12.2017
Current ratio	0,81	0,99
Equity ratio	0,35	0,42
Intrinsic value of share capital	14,21	15,08

18. Significant accounting policies

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 2017 except for the changes stated in note 4.

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

Interim Financial Statements of Icelandair Group hf. 31 March 2018 19 Amounts are in USD thousands