

# Icelandair Group hf.

Consolidated Financial Statements for the year 2019



## Contents

Endorsement and Statement by the Board of Directors and the CEO .....	3
Independent Auditors' Report .....	6
Consolidated Income Statement and other Comprehensive Income .....	10
Consolidated Statement of Financial Position .....	11
Consolidated Statement of Changes in Equity .....	12
Consolidated Statement of Cash Flows .....	13
Notes to the Consolidated Financial Statements .....	14

Note	Page	Note	Page
1. Reporting entity .....	14	22. Non-current receivables and deposits .....	32
2. Basis of accounting .....	14	23. Income taxes .....	32
3. Functional and presentation currency .....	14	24. Inventories .....	33
4. Use of estimates and judgements .....	14	25. Trade and other receivables .....	34
5. Changes in accounting policies .....	15	26. Cash and cash equivalents .....	34
6. Operating segments .....	20	27. Equity .....	34
7. Assets held for sale .....	24	28. Earnings per share .....	35
8. Operating income .....	25	29. Loans and borrowings .....	36
9. Operating expenses .....	25	30. Lease liabilities .....	38
10. Auditor's fee .....	26	31. Non-current payables .....	39
11. Depreciation and amortisation .....	26	32. Trade and other payables .....	39
12. Finance income and finance costs .....	26	33. Deferred income .....	39
13. Operating assets .....	27	34. Financial risk management .....	40
14. Mortgages and commitments .....	28	35. Financial instruments and fair values .....	47
15. Insurance value of aircraft and flight equipment .....	28	36. Capital commitments .....	48
16. Insurance value of buildings and other operating assets .....	28	37. Related parties .....	48
17. Right of use assets .....	29	38. Litigations and claims .....	49
18. Intangible assets and goodwill .....	29	39. Group entities .....	50
19. Impairment test .....	30	40. Events after the reporting period .....	50
20. Investment in associates .....	31	41. Ratios .....	51
21. Deferred cost .....	31	42. Significant accounting policies .....	51
		43. Standards issued but not yet effective .....	62

### Appendices:

Corporate Governance Statement .....	63
Non-Financial Reporting .....	67
Quarterly Statements .....	73



# Endorsement and Statement by the Board of Directors and the CEO

## Operations in the year 2019

These financial statements comprise the consolidated financial statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The Group operates in the airline and tourism sectors with Iceland as a cornerstone of an international route network.

For the year 2019, loss amounted to USD 57.8 million and total comprehensive loss amounted to USD 34.8 million. Total equity at year end 2019 amounted to USD 482.5 million, including share capital 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 during the year.

On 12 March 2019, the Boeing 737 MAX aircrafts were suspended which has caused adverse effects on Icelandair's operations. The suspension of the MAX aircraft has resulted in unprecedented impact on the operations of Icelandair in 2019. The Company's MAX aircraft were intended to cover 27% of Icelandair's passenger capacity in 2019. The key focus of management has been on minimizing the impact of the suspension on the company, the passengers and the Icelandic tourism industry by adding leased aircraft to the fleet during the summer and by placing emphasis on ensuring seating capacity to and from Iceland, with the result that the number of Icelandair's passengers travelling to Iceland increased by 25% from 2018. Despite these mitigating measures the situation has had negative impact on revenue in the passenger network, increased expenses and restricted the utilization of the fleet and crew. Two partial compensation agreements were reached with Boeing in connection with the company's loss due to the suspension. This was recognized partially as increased passenger revenue and partially as decreased aircraft lease expense in aviation expenses. Details on these agreements with Boeing are confidential. The estimated effect quantified to date on Icelandair Group's EBIT net the partial compensations is around USD 100 million in 2019.

There is still uncertainty when the MAX aircraft suspension will be lifted. The financial impact will however be considerably less in the year 2020 than in 2019 as Icelandair has been able to organize its operations in 2020 with this possible scenario in mind. The Company is in ongoing discussions with Boeing regarding further compensation for the financial loss resulting from the suspension.

The Company is still expecting 10 MAX aircraft to be delivered. The initial delivery schedule was that 3 of these MAX aircraft were to be delivered in 2019, 5 MAX aircraft in 2020 and 2 MAX aircraft in 2021. The Company expects the 3 MAX aircraft that were to be delivered in 2019 to be delivered before the end of 2020. However, the Company realizes that further delays may be expected. The suspension has already had significant adverse effects on the Company's operation and profitability and will continue to do so while the suspension remains. Therefore, the development of the situation with the MAX aircraft is closely monitored by the Company and rolling 12-18 months contingency plans are maintained to ensure that all mitigating actions are made during this time period.

In 2019 many operational improvements materialized but due to the negative impact resulting from the MAX suspension the full year operation resulted in net loss. The Company's key goal in 2020 is to return to profitability by building on the operational improvements and mitigate the operational risk of the potential continued MAX suspension. With USD 301.6 million in liquidity and USD 482.5 million in equity, the company is well equipped to address challenges and seize opportunities and thereby generate long term profitable growth.

Following a strategic decision in 2018 to place greater focus on the Group's key competencies, i.e. the airline industry, the Company signed a share purchase agreement (the "Agreement") on 13 July 2019, with Berjaya Property Ireland Limited ("Berjaya"), a subsidiary of Berjaya Land Berhad, whereby Berjaya acquires a majority share in Icelandair Hotels and related real estate (the "Hotels"). The completion of the Transaction was set for year-end 2019. In December 2019, the Company granted Berjaya a two-month extension due to capital controls in Malaysia. Further information can be found in note 7.

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

At a shareholders' meeting held 24 April 2019 a proposal was approved authorising the Board of Directors to increase Company's share capital in the nominal value of ISK 625,000,000 with the sale of shares to PAR Capital Management Inc. and related companies. PAR Capital is an international investment fund focusing on long-term investments, mostly in travel services and airlines. The increase in share capital will strengthen the Company's financial standing still further and enable it to develop its fleet of aircraft and thereby support profitable long-term growth of its route network. In addition, the Company will be better placed to seize any opportunities that may arise in the current operating environment.

The Board of Directors proposes no dividend payment to shareholders in 2020 for the year 2019.

### Share capital and Articles of Association

The nominal value of the Company's issued share capital amounted to ISK 5.4 billion at year-end. The share capital is divided into shares of ISK 1, each with equal rights within a single class of shares listed on the Icelandic Stock Exchange (Nasdaq Iceland). Companies can acquire and hold up to 10% of the nominal value of treasury shares according to the Icelandic Company's Act. At year end the Company did not hold any treasury shares.

The Company's Board of Directors comprises five members, two women and three men. The gender ratio is thus in accordance with Laws requiring companies with over 50 employees to ensure that the Board has representation from both genders and each gender is at least 40% when there are more than three Board members. The Board members are elected at the annual general meeting for a term of one year. Those persons willing to stand for election must give formal notice thereof to the Board of Directors at least seven days before the annual general meeting.

The Company's Articles of Association may only be amended at a legitimate shareholders' meeting, provided that amendments and their main aspects are clearly stated in the invitation to the meeting. A resolution will only be valid if it is approved by at least 2/3 of votes cast and is approved by shareholders controlling at least 2/3 of the share capital represented at the shareholders' meeting.

The number of shareholders at year end 2019 was 3,171 an increase of 155 during the year. At year end 2019 the 10 largest shareholders were:

Name	Shares in ISK thousand	Shares in %
Par Investment Partners L.P. ....	745,250	13.71
Lífeyrissjóður verslunarmanna .....	642,361	11.81
Stefnir - ÍS 15 og ÍS 5 .....	573,938	10.55
Gildi - Lífeyrissjóður .....	393,761	7.24
Birta Lífeyrissjóður .....	381,562	7.02
Lífeyrissjóður starfsmanna ríkisins A deild og B deild .....	438,815	8.07
Frjálsi Lífeyrissjóðurinn .....	154,480	2.84
Landsbréf - Úrvalsbréf .....	134,523	2.47
Brú - Lífeyrissjóður starfsmanna sveitarfélaga .....	96,136	1.77
Sólsvöllur ehf. ....	91,214	1.68
	3,652,040	67.16
Other shareholders .....	1,785,621	32.84
	5,437,661	100.00

Further information on matters related to share capital is disclosed in note 27. Additional information on shareholders

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

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### Corporate Governance

The Group's management is of the opinion that practicing good Corporate Governance is vital for the existence of the Group and in the best interests of shareholders, Group companies, employees and other stakeholders and will in the long run produce satisfactory returns on shareholders' investment. Corporate Governance exercised within Icelandair Group hf. ensures sound and effective control of the Company's affairs and a high level of business ethics.

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

The Board of Directors has prepared a Corporate Governance Statement in compliance with the Icelandic Corporate Governance guidelines which are described in full in the Corporate Governance Statement in the consolidated financial statements. It is the opinion of the Board of Directors that Icelandair Group hf. complies with the Icelandic guidelines for Corporate Governance.

Information on matters related to financial risk management is disclosed in note 34.

### Non-Financial Reporting

According to Icelandic Financial Statements Act companies should disclose, in their management report, relevant and useful information on their policies, main risks and outcomes relating to at least environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues in addition to a short description of the Company's business model. The Company's policies and outcome of these matters are further discussed in the Non-Financial Reporting in the consolidated financial statements.

### Statement by the Board of Directors and the CEO

The consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for financial statements of listed companies.

According to our best knowledge it is our opinion that the annual consolidated financial statements give a true and fair view of the consolidated financial performance of the Group for the year 2019, its assets, liabilities and consolidated financial position as at 31 December 2019 and its consolidated cash flows for the year 2019.

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

The Board of Directors and the CEO have today discussed the consolidated financial statements of Icelandair Group hf. for the year 2019 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the consolidated financial statements will be approved at the annual general meeting of Icelandair Group hf.

Reykjavík, 6 February 2020.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board  
Guðmundur Hafsteinsson  
Heiðrún Jónsdóttir  
Ómar Benediktsson  
Svafa Grönfeldt

CEO:

Bogi Nils Bogason

# Independent Auditors' Report

To the board of directors and shareholders of Icelandair Group hf.

## Report on the audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Icelandair Group hf. "the Group", which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional disclosure requirements for listed companies in Iceland.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of consolidated financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit responded to the key audit matter
<p><b>Timing and accuracy of revenue recognition of passenger income</b></p> <p><i>Reference is made to note 8 "Operating income" and 32 "Deferred income".</i></p> <p>Passenger ticket sale is presented as deferred income in the consolidated statement of financial position until transportation has been provided and at that time the sale is recognized as revenue. Large volumes of transactions flow through various computer systems from the date of sale until revenue is recognized in the consolidated statement of profit or loss.</p> <p>The recording process is complex which gives rise to an inherent risk of error, in determining the amount and timing of the revenue recognition. Timing and accuracy in the recording of passenger income is therefore one of the key audit matters of our audit of the consolidated financial statements.</p>	<p>Our audit procedures were designed to challenge the timing and accuracy of the revenue recognition. These procedures include reviewing the test of controls over the Group's systems which govern the passenger ticket sales, including access control and change management controls. We tested various automated and non-automated controls. We also tested import and export of key data to and from the system. The purpose of the testing was to assess if the design of the controls was likely to ensure the accuracy and timing of the revenue recognition of passenger income and to test operating effectiveness of selected controls.</p> <p>We analysed passenger revenue and used external and internal information to set expectations which were compared to recognized revenue.</p> <p>We used substantive testing including a reconciliation between systems, testing of selected journal entries posted to passenger revenue accounts and we tested the inclusion of passenger revenue transactions in the appropriate period by testing selected flights before and after the the reporting date.</p>

## Independent Auditors' Report continued:

Key audit matter	How our audit responded to the key audit matter
<p><b>Expected recoverable amount of intangible assets and goodwill</b></p> <p><i>Reference is made to note 18 "Intangible assets and goodwill" and 42.o "Impairment".</i></p> <p>The carrying value of goodwill amounted to USD 137.1 million and other intangible assets USD 33.4 million at year end 2019 as specified in note 18.</p> <p>The carrying value of intangible assets has been allocated to the applicable cash generating units within the Group. Management is required to perform an impairment test annually on goodwill and other intangible assets with indefinite useful lives. The purpose of an impairment test is to determine if goodwill and other intangible assets can be recovered through future cash flows.</p> <p>The recoverable amounts of individual cash generating units are determined by discounting the expected future cash flows generated from the continuing use of the units.</p> <p>The expected recoverable amount of intangible assets is one of the key audit matters due to the significance to the Group's consolidated statement of financial position, and due to inherent uncertainty involved in forecasting and discounting future cash flows which are the basis of the assessment of the recoverability of the intangible assets.</p>	<p>We used the service of our valuation specialists to assess the valuation models and assumptions used by management in their calculations of expected recoverable amount of each cash generating unit.</p> <p>We assessed the appropriateness of management's key assumptions. We evaluated alignment of long-term growth rates and considered whether discount rates were within acceptable ranges for each cash generating unit.</p> <p>We considered the potential impact of uncertainties related to the suspension of the Boeing 737 MAX aircrafts and the effect on key assumptions within management's business plans.</p> <p>We assessed the reasonableness for margins, new investments and utilization in management's forecasts and we considered the accuracy of forecasts used in previous years against actual results.</p> <p>We verified the impairment calculations. Furthermore, we challenged management's sensitivity analysis to evaluate whether a reasonable change in the key assumptions for any of the Group's cash generating units would cause the carrying amounts to exceed the recoverable amounts.</p> <p>We assessed related disclosures to confirm that all information required by applicable accounting policies were provided.</p>

### Other information

The Board of Directors and CEO are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. The annual report is not available at our reporting date but is expected to be made available to us after that date.

## Independent Auditors' Report continued:

### Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union and additional disclosure requirements for listed companies in Iceland, financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and CEO are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and CEO are responsible for overseeing the Group's financial reporting process.

### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



## Independent Auditors' Report continued:

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### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements contd.**

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and were applicable, related safeguards.

From the matters communicated with The Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on Other Legal and Regulatory Requirements**

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statements Act no. 3/2006, we confirm that, to the best of our knowledge, the statement by the Board of Directors and the CEO accompanying the consolidated financial statements includes the information required by the Financial Statements Act if not disclosed elsewhere in the consolidated financial statements.

The engagement partner on the audit resulting in this independent auditor's report is Auður Ósk Þórisdóttir.

Reykjavík, 6 February 2020.

**KPMG ehf.**

Auður Ósk Þórisdóttir  
Hjördís Ýr Ólafsdóttir

## Consolidated Income Statement and other Comprehensive Income

	Notes	2019	2018
<b>Operating income</b>			
Transport revenue .....	8	1,159,524	1,093,314
Aircraft and aircrew lease .....		91,647	120,113
Other operating revenue .....	8	253,324	297,091
		<u>1,504,495</u>	<u>1,510,518</u>
<b>Operating expenses</b>			
Salaries and other personnel expenses .....		489,828	515,872
Aviation expenses .....		568,455	552,669
Other operating expenses .....		308,236	365,498
	9	<u>1,366,519</u>	<u>1,434,039</u>
<b>Operating profit before depreciation and amortisation (EBITDA) .....</b>		<b>137,976</b>	<b>76,479</b>
Depreciation and amortisation .....	11	( 177,273 )	( 133,447 )
<b>Operating loss (EBIT) .....</b>		<b>( 39,297 )</b>	<b>( 56,968 )</b>
Finance income .....		7,044	8,578
Finance costs .....		( 32,994 )	( 21,172 )
<b>Net finance costs .....</b>	12	<b>( 25,950 )</b>	<b>( 12,594 )</b>
Share of (loss) profit of associates .....	20	( 7,354 )	1,752
<b>Loss before tax .....</b>		<b>( 72,601 )</b>	<b>( 67,810 )</b>
Income tax .....	23	14,822	12,240
<b>Loss for the year .....</b>		<b>( 57,779 )</b>	<b>( 55,570 )</b>
<b>Other comprehensive income (loss)</b>			
<b>Items that are or may be reclassified to profit or loss</b>			
Currency translation differences .....		( 1,276 )	( 6,745 )
Cash flow hedges - effective portion of changes in fair value, net of tax .....		26,463	( 40,339 )
Net loss on hedge of investment, net of tax .....		( 2,241 )	( 7,773 )
<b>Other comprehensive income (loss) for the year .....</b>		<b>22,946</b>	<b>( 54,857 )</b>
<b>Total comprehensive loss for the year .....</b>		<b>( 34,833 )</b>	<b>( 110,427 )</b>
Owners of the Company .....		( 55,669 )	( 55,815 )
Non-controlling interests .....		( 2,110 )	245
<b>Loss for the year .....</b>		<b>( 57,779 )</b>	<b>( 55,570 )</b>
<b>Total Comprehensive loss attributable to:</b>			
Owners of the Company .....		( 32,715 )	( 110,606 )
Non-controlling interests .....		( 2,118 )	179
<b>Total comprehensive loss for the year .....</b>		<b>( 34,833 )</b>	<b>( 110,427 )</b>
<b>Earnings per share:</b>			
Basic earnings per share in US cent per share .....	28	( 1.06 )	( 1.16 )
Diluted earnings per share in US cent per share .....	28	( 1.06 )	( 1.16 )

The notes on pages 14 to 62 are an integral part of these consolidated financial statements.

## Consolidated Statement of Financial Position

	Notes	2019	2018
<b>Assets:</b>			
Operating assets .....	13-16	630,400	673,420
Right-of-use assets .....	17	134,035	0
Intangible assets and goodwill .....	18-19	175,231	177,568
Investments in associates .....	20	25,784	26,134
Deferred cost .....	21	4,741	91
Receivables and deposits .....	22	44,967	17,365
Non-current assets		1,015,158	894,578
Inventories .....	24	22,689	25,951
Derivatives used for hedging .....	34	1,881	666
Trade and other receivables .....	25	124,879	118,298
Assets held for sale .....	7	276,907	125,169
Cash and cash equivalents .....	26	235,073	299,460
Current assets		661,429	569,544
<b>Total assets</b>		<b>1,676,587</b>	<b>1,464,122</b>
<b>Equity:</b>			
Share capital .....		44,199	39,053
Share premium .....		174,299	133,513
Reserves .....		45,449	26,262
Retained earnings .....		219,132	271,034
Equity attributable to equity holders of the Company	27	483,079	469,862
Non-controlling interests .....		( 601 )	1,517
<b>Total equity</b>		<b>482,478</b>	<b>471,379</b>
<b>Liabilities:</b>			
Loans and borrowings .....	29	241,328	147,513
Lease liabilities .....	30	135,473	0
Payables .....	31	23,418	14,554
Deferred tax liabilities .....	23	25,679	32,868
Non-current liabilities		425,898	194,935
Loans and borrowings .....	29	79,958	268,288
Lease liabilities .....	30	22,980	0
Derivatives used for hedging .....	34	1,561	39,660
Liabilities held for sale .....	7	238,732	52,244
Trade and other payables .....	32	221,000	222,766
Deferred income .....	33	203,980	214,850
Current liabilities		768,211	797,808
<b>Total liabilities</b>		<b>1,194,109</b>	<b>992,743</b>
<b>Total equity and liabilities</b>		<b>1,676,587</b>	<b>1,464,122</b>

The notes on pages 14 to 62 are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

Attributable to equity holders of the Company							
	Share capital	Share premium	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
<b>2018</b>							
Balance at 1 January 2018 .....	39,532	140,519	127,407	282,739	590,197	1,338	591,535
Impact of IFRS 15 implementation .....				5,010	5,010		5,010
Restated Balance at 1 January 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 .....			( 54,790 )	( 55,816 )	( 110,606 )	179	( 110,427 )
Loss of subsidiaries and associates in excess of dividend received .....			( 46,355 )	46,355			
Dividend (0.15 USD cent per share) .....				( 7,254 )	( 7,254 )		( 7,254 )
Balance at 31 December 2018 .....	39,053	133,513	26,262	271,034	469,862	1,517	471,379
<b>2019</b>							
Balance at 1 January 2019 .....	39,053	133,513	26,262	271,034	469,862	1,517	471,379
Total comprehensive loss .....			22,954	( 55,669 )	( 32,715 )	( 2,118 )	( 34,833 )
Share issued .....	5,146	40,786			45,932		45,932
Loss of subsidiaries and associates in excess of dividend received .....			( 3,767 )	3,767			0
Balance at 31 December 2019 .....	44,199	174,299	45,449	219,132	483,079	( 601 )	482,478

Information on changes in other reserves is provided in note 27.

The notes on pages 14 to 62 are an integral part of these consolidated financial statements.



## Consolidated Statement of Cash Flows

	Notes	2019	2018
<b>Cash flows from operating activities:</b>			
Loss for the year .....		( 57,779 )	( 55,570 )
Adjustments for:			
Depreciation and amortisation .....	11	177,273	133,447
Expensed deferred cost .....		11,635	9,991
Net finance costs .....	12	25,950	12,594
Gain on sale of operating assets .....		( 2,479 )	( 4,767 )
Gain on sale of investments .....		0	( 710 )
Share in loss (profit) of associates .....		7,355	( 1,752 )
Tax expense .....	23	( 14,822 )	( 12,240 )
		147,133	80,993
Changes in:			
Inventories, decrease .....	24	2,935	850
Trade and other receivables, increase .....		( 4,044 )	( 8,577 )
Trade and other payables, (decrease) increase .....		( 2,839 )	29,077
Deferred income, increase (decrease) .....		8,091	( 11,211 )
Cash generated from operating activities		4,143	10,139
Interest received .....		3,112	2,642
Interest paid .....		( 34,510 )	( 23,546 )
Income taxes paid .....		0	( 8,675 )
Net cash from operating activities		119,878	61,553
<b>Cash flows to investing activities:</b>			
Acquisition of operating assets .....	13	( 253,447 )	( 263,900 )
Proceeds from sale of operating assets .....		155,067	52,719
Acquisition of intangible assets .....	18	( 5,654 )	( 2,749 )
Deferred cost, change .....		( 10,173 )	( 4,602 )
Non-current receivables, change .....		( 12,963 )	88,546
Cash attributable to assets held for sale .....	7	( 11,487 )	( 4,034 )
Short term investments, change .....		0	4,087
Net cash used in investing activities		( 138,657 )	( 129,933 )
<b>Cash flows to financing activities:</b>			
Purchase of treasury shares .....	27	0	( 7,485 )
Dividend paid .....		0	( 7,254 )
Share issued .....	27	45,932	0
Proceeds from loans and borrowings .....	29	200,789	143,424
Repayment of loans and borrowings .....	29	( 236,152 )	( 18,783 )
Repayment of lease liabilities .....	30	( 30,783 )	0
Short term loans, change .....	29	( 24,726 )	39,434
Net cash (used in) from financing activities		( 44,940 )	149,336
(Decrease) increase in cash and cash equivalents .....		( 63,719 )	80,956
Effect of exchange rate fluctuations on cash held .....		( 668 )	( 2,687 )
Cash and cash equivalents at beginning of the year .....		299,460	221,191
Cash and cash equivalents at 31 December .....	26	235,073	299,460
<b>Investment and financing without cash flow effect:</b>			
Acquisition of right-of-use assets .....	17	( 100,037 )	0
New or renewed leases .....	30	110,750	0
Acquisition of operating assets and intangible assets .....		0	( 64,740 )
Proceeds from sale of operating assets .....		0	1,237
Investment in subsidiaries and associates .....		0	4,573
Non-current receivables .....		( 10,713 )	52,506
Proceeds from loans and borrowings .....	29	0	6,424

The notes on pages 14 to 62 are an integral part of these consolidated financial statements.

## Notes

### 1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is at Reykjavíkurlugvöllur in Reykjavík, Iceland. The consolidated financial statements for the Company as at and for the year ended 31 December 2019 comprise the Company and its subsidiaries, together referred to as the "Group" and individually as "Group entities" and the Group's interests in associates. The Group primarily operates in the airline and tourism industry. The Company is listed on the Nasdaq Main Market Iceland. □

### 2. Basis of accounting

#### a. Statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. They were authorised for issue by the Company's board of directors on 6 February 2020.

#### b. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, part of deferred income and certain short-term investments are stated at their fair values. Details of the Group's accounting policies are included in Note 42.

This is the first set of the Group's annual financial statements in which IFRS 16 Lease has been applied. Changes to significant accounting policies are described in Note 5.

### 3. Functional and presentation currency

The Company's functional currency is U.S. dollars (USD). These Consolidated financial statements are presented in U.S dollars (USD). All financial information presented in USD has been rounded to the nearest thousand, unless otherwise indicated.

### 4. Use of estimates and judgements

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

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

#### Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2019 is included in the following notes:

Note 19 - Measurement of the recoverable amounts of cash-generating units

Note 33 - Deferred income

Note 35 - Financial instruments and values

#### Measurement of fair values

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

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

## Notes, contd.:

### 4. Use of estimates and judgements, contd.:

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

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

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

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

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

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

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

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

Note 33 - Deferred income

Note 35 - Derivatives

Note 35 - Non-derivative financial liabilities

### 5. Changes in accounting policies

The Group initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

#### IFRS 16 Lease

On 1 January 2019, the Group applied IFRS 16 Leases. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

#### a. Definition of a lease

The Group previously determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of lease, as explained in Note 42 e.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

## Notes, contd.:

### 5. Changes in accounting policies, contd.:

#### b. As a lessee

As a lessee, the Group leases many assets including property, airplanes, cars and other assets. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risk and rewards incidental to ownership of the underlying asset of the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of the leases.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

#### (i). Aircraft maintenance of leased aircraft

Accounting of the maintenance on leased aircraft, the Group recognizes return obligation liabilities and provisions in respect of the required maintenance obligations within the framework of the lease contract of aircraft to lessors. The constitution of these return obligation liabilities and provisions depends on the type of maintenance obligations to fulfill before returning these aircraft to the lessors: overhaul and restoration work as well as airframe and engine potential reconstitution. These provisions also consist of compensation paid to lessors in respect of wear of the limited life parts in the engines.

##### - Overhaul and restoration works (not depending on aircraft utilization)

Costs resulting from work required to be performed just before returning aircraft to the lessors, such as painting of the shell or aircraft overhaul ("C Check") are recognized as provisions as of the inception of the contract. The counterpart of these provisions is booked with the initial book value of the aircraft right-of-use assets. This complement to the right-of-use asset is depreciated over the lease term.

##### - Airframe and engine potentials reconstitution (depending on the utilization of the aircraft and its engines)

The airframe and the engine potentials are recognized as a additional to the right-of-use assets since they are considered as full-fledged components, as distinct from the physical components which are the engine and the airframe. These components are the counterparts of the return obligation liability, recognized in its totality at the inception of the contract. When maintenance events aimed at reconstituting these expenses take place, the costs incurred are capitalized. The provision is depreciated over the period of use of the underlying assets (flight hours for the engine component or straight-line for the airframe component).

##### - Compensation related to limited life parts (engine components)

As the component approach is not applicable for limited life parts, costs related to the lessor's compensation are booked progressively as provisions as they are used during the lease term and based upon contractual data (e.g. cost of a limited life part).

Provision for maintenance of leased engines was classified as lease liability under IFRS 16 during the year. Reclassification has been made in the third quarter and provision for maintenance of leased engines is classified under IAS 37 as provision. Reclassification has been made in the balance sheet due to these classification changes. Maintenance cost from lease engines amounted to USD 21.8 million during the year.

#### (ii). Lease classified as operating leases under IAS 17

The Group previously classified property lease as operating leases under IAS 17. On transition lease liabilities for the leases were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019 (see Note 5.d.). Right of use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all leases.



## Notes, contd.:

### 5. Changes in accounting policies, contd.:

#### b. As lessee (contd.):

##### (ii). Lease classified as operating leases under IAS 17 (contd.):

The Group tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

#### c. As a lessor

The Group leases out its own property and right-of-use assets. The Group has classified these leases as operating leases.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for sub-lease.

The Group sub-leases some of its properties. Under IAS 17 the head lease and sub-lease contracts were classified as operating leases. On transition to IFRS 16 the right-of-use assets recognised from the head leases are presented in right-of-use assets net of sub-lease agreement. Receivable from sub-leases is presented in receivable as net present value of future lease payments.

The Group has applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

#### d. Impacts on consolidated financial statements

##### (i) Consolidated Statement of Financial Position

On transition to IFRS 16 the Group recognized right-of-use assets, lease liability and lease receivable.

<b>Assets:</b>	<b>1.1.2019</b>
Non-current assets:	
Right-of-use assets .....	268,864
Receivables and deposits .....	14,076
Total current assets .....	282,940
Current assets:	
Receivables .....	6,783
Total current assets .....	6,783
Total Assets .....	289,723
<b>Liabilities:</b>	
Non-current liabilities:	
Lease liabilities .....	259,029
Total non-current liabilities .....	259,029
Current liabilities:	
Lease liabilities .....	30,694
Total current liabilities .....	30,694
Total liabilities .....	289,723

## Notes, contd.:

### 5. Changes in accounting policies, contd.:

#### d. Impacts on consolidated financial statements (contd.):

##### (i) Consolidated Statement of Financial Position (contd.):

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 4.7%

Operating lease commitments at 31 December 2018 as disclosed under IAS 17 .....	808,793
Discounted using the incremental borrowing rate at 1 January 2019 .....	( 54,723 )
Exemption of low-value lease .....	( 10,650 )
Exemption of lease with 12 months or shorter terms .....	( 419,517 )
Extension options reasonably certain to be exercised .....	8,712
Lease that is not classified under IFRS 16 .....	( 42,892 )
Lease liabilities at 1 January 2019 .....	289,723

An agreement has been made of sales and lease back of four MAX aircrafts, in addition to the MAX the Group has made a lease agreement for one Boeing 737-800 aircraft that will be delivered early 2020. Lease liability for those five aircrafts amount to 159 million USD.

##### (ii) Consolidated Statement of Comprehensive Income

The following table shows the change to the line items of the consolidated statement of comprehensive income during the year 2019 with adoption of IFRS 16.

	Amounts without adoption of IFRS 16 2019	Adjustment IFRS 16	As reported 2019
<b>Operating income</b>			
Transport revenue .....	1,159,524	0	1,159,524
Aircraft and aircrew lease .....	98,847	( 7,200 )	91,647
Other operating revenue .....	257,836	( 4,512 )	253,324
Total operating income .....	1,516,207	( 11,712 )	1,504,495
<b>Operating expenses</b>			
Salaries and other personnel expenses .....	489,828	0	489,828
Aviation expenses .....	595,107	( 26,652 )	568,455
Other operating expenses .....	324,764	( 16,528 )	308,236
Total operating expenses .....	1,409,699	( 43,180 )	1,366,519
Operating profit before depr. and amortisation / EBITDA .....	106,508	31,468	137,976
Depreciation and amortisation .....	( 148,341 )	( 28,932 )	( 177,273 )
Operating loss before net finance costs / EBIT .....	( 41,833 )	2,536	( 39,297 )
Net finance costs .....	( 16,535 )	( 9,415 )	( 25,950 )
Share of loss of associates, net of tax .....	( 7,354 )	0	( 7,354 )
Profit before income tax .....	( 65,722 )	( 6,879 )	( 72,601 )
Income tax .....	13,446	1,376	14,822
Profit for the year .....	( 52,276 )	( 5,503 )	( 57,779 )

## Notes, contd.:

### 5. Changes in accounting policies, contd.:

#### d. Impacts on consolidated financial statements (contd.):

##### (iii) Consolidated Statement of Cash Flows

The following table shows the change to the line items of the consolidated statement of cash flows during the year 2019 with adoption of IFRS 16.

	Amounts without adoption of IFRS 16 2019	Adjustment IFRS 16	As reported 2019
<b>Cash flows from operating activities</b>			
Loss for the year .....	( 52,276 )	( 5,503 )	( 57,779 )
Depreciation and amortisation .....	148,341	28,932	177,273
Net finance costs .....	20,691	5,259	25,950
Gain on the sale of operating assets .....	( 6,863 )	4,384	( 2,479 )
Interest received .....	2,237	875	3,112
Interest paid .....	( 20,716 )	( 13,794 )	( 34,510 )
Tax expense .....	( 13,446 )	( 1,376 )	( 14,822 )
Other operating activities .....	22,541	592	23,133
Net cash from operating activities .....	100,509	19,369	119,878
Non-current receivables, change .....	( 24,377 )	11,414	( 12,963 )
Other investing activities .....	( 125,694 )	0	( 125,694 )
Net cash used in investing activities .....	( 150,071 )	11,414	( 138,657 )
Repayment of lease liabilities .....	0	( 30,783 )	( 30,783 )
Other financing activities .....	( 14,157 )		( 14,157 )
Net cash used in financing activities .....	( 14,157 )	( 30,783 )	( 44,940 )
Decrease in cash and cash equivalents .....	( 63,719 )	0	( 63,719 )

## Notes, contd.:

### 6. 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. 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 reportable operating segments. 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 belly capacity within aircraft of the Icelandair passenger network as well as with their own freighters.

Icelandair Shared Services, the group's shared service center which will be merged into Icelandair ehf. in 2020, Iceignir, 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 7, a 75% equity share in Icelandair Hotels is to be delivered to Berjaya Property Ireland Limited on 28 February 2020 when the remaining balance of the purchase consideration is to be paid.



## Notes, contd.:

### 6. Operating segments, contd.: Reportable segments for the year 2019

	Icelandair	Other group entities	Total
External revenue .....	1,168,819	335,676	1,504,495
Inter-segment revenue .....	116,961	12,746	129,707
Segment revenue .....	1,285,780	348,422	1,634,202
Depreciation and amortisation .....	147,622	29,651	177,273
Segment EBIT .....	( 66,014 )	26,717	( 39,297 )
Finance income .....	6,693	1,471	8,164
Finance costs .....	( 22,717 )	( 11,397 )	( 34,114 )
Share of profit of equity accounted investees .....	268	( 7,622 )	( 7,354 )
Reportable segment (loss) profit before tax .....	( 81,770 )	9,169	( 72,601 )
Reportable segment assets .....	1,914,092	442,851	2,356,943
Capital expenditure .....	239,026	30,248	269,274
Reportable segment liabilities .....	1,255,017	382,093	1,637,110

### Reportable segments for the year 2018 (restated)

External revenue .....	1,108,637	401,881	1,510,518
Inter-segment revenue .....	95,091	17,854	112,945
Segment revenue .....	1,203,728	419,735	1,623,463
Depreciation and amortisation .....	115,666	17,781	133,447
Segment EBIT .....	( 73,050 )	16,082	( 56,968 )
Finance income .....	8,750	3,779	12,529
Finance costs .....	( 21,173 )	( 3,950 )	( 25,123 )
Share of profit of equity accounted investees .....	1,648	104	1,752
Reportable segment (loss) profit before tax .....	( 83,826 )	16,015	( 67,810 )
Reportable segment assets .....	1,915,771	182,444	2,098,215
Capital expenditure .....	234,221	37,030	271,251
Reportable segment liabilities .....	1,239,285	140,171	1,379,456

## Notes, contd.:

### 6. Operating segments, contd.:

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

	2019	2018
		Restated
<b>Revenue</b>		
Total revenue for reportable segments .....	1,634,204	1,623,463
Elimination of inter-segment revenue .....	( 129,709 )	( 112,945 )
Consolidated revenue .....	1,504,495	1,510,518
<b>Profit or loss</b>		
Total profit of reportable segments .....	( 72,601 )	( 67,810 )
Consolidated continuing profit before tax .....	( 72,601 )	( 67,810 )
<b>Assets</b>		
Total assets for reportable segments .....	2,330,359	2,098,215
Investments in associates .....	26,584	0
Elimination of inter-segment assets .....	( 680,356 )	( 634,093 )
Consolidated total assets .....	1,676,587	1,464,122
<b>Liabilities</b>		
Total liabilities for reportable segments .....	1,637,109	1,379,456
Elimination of inter-segment liabilities .....	( 443,000 )	( 386,713 )
Consolidated total liabilities .....	1,194,109	992,743

#### Other material items

	Reportable segment totals	Adjust- ments	Consoli- dated totals
<b>2019</b>			
Segment EBIT .....	( 39,297 )		( 39,297 )
Finance income .....	8,164	( 1,120 )	7,044
Finance costs .....	( 34,114 )	1,120	( 32,994 )
Share of profit of associates .....	( 7,354 )		( 7,354 )
Capital expenditure .....	269,274	0	269,274
<b>2018</b>			
Segment EBIT .....	( 56,968 )		( 56,968 )
Finance income .....	12,529	( 3,950 )	8,578
Finance costs .....	( 25,123 )	3,950	( 21,173 )
Share of profit of associates .....	1,752		1,752
Capital expenditure .....	271,250	0	271,250

## Notes, contd.:

### 6. 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:

	2019	2018
<i>Revenues</i>		
North America .....	39%	40%
Iceland .....	23%	22%
West Continental Europe .....	15%	14%
Scandinavia .....	7%	7%
United Kingdom .....	5%	6%
Other .....	11%	11%
Total revenues .....	100%	100%

## Notes, contd.:

### 7. Assets held for sale

During the years 2018 and 2019 the Group decided to sell its subsidiaries in Tourism services following a strategic decision to place greater focus on the Group's key competencies, i.e. the airline industry. See further in notes 6 and 39.

As these operations 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.

#### a. Impacts on consolidated financial statements

##### (i) Comprehensive profit for the Tourism services

	2019	2018 Restated*
Revenue .....	168,304	215,724
Elimination of inter-segment revenue .....	( 6,711 )	( 10,345 )
External revenue .....	161,593	205,379
Expenses .....	162,792	211,546
Elimination of expenses of inter-segment sales .....	( 9,527 )	( 10,345 )
External expenses .....	153,265	201,201
<b>Profit from operating activities .....</b>	<b>8,328</b>	<b>4,178</b>
Net finance cost .....	( 6,980 )	711
Share of profit of accosiates .....	( 3 )	104
<b>Profit before tax .....</b>	<b>1,345</b>	<b>4,993</b>
Income tax .....	820	( 962 )
<b>Profit from Tourism services, net of tax .....</b>	<b>2,165</b>	<b>4,031</b>

\* Iceland Travel included in 2018

Basic profit per share in US cent per share .....	0.04	0.08
Diluted profit per share in US cent per share .....	0.04	0.08

##### (ii) Cash flows from (used in) Tourism services

Net cash from operating activities .....	19,242	11,506
Net cash used in investing activities .....	( 47,523 )	( 25,367 )
Net cash from financing activities .....	28,713	13,651
<b>Net cash flows for the period .....</b>	<b>432</b>	<b>( 210 )</b>

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

The assets and liabilities of the Tourism services segment are presented as held for sale in the consolidated statements of financial position at end of December 2019 following a strategic decision by the Board. Icelandair Hotels was classified as an asset held for sale at year end 2018. Both Icelandair Hotels and Iceland Travel were classified as held for sale as at 31 December 2019. The carrying amounts of the major classes of assets and liabilities were as follows:

	31.12.2019	31.12.2018
Operating assets .....	100,201	102,491
Right-of-use-assets .....	145,909	0
Intangible assets and goodwill .....	7,437	5,457
Investments in associates .....	1,011	1,055
Inventories .....	902	755
Trade and other receivables .....	9,960	11,377
Cash and cash equivalents .....	11,487	4,034
<b>Total assets .....</b>	<b>276,907</b>	<b>125,169</b>
Deferred tax liabilities .....	2,045	3,191
Loans and borrowings .....	66,098	35,644
Lease liabilities .....	149,554	0
Trade and other payables .....	13,451	8,683
Deferred income .....	7,584	4,726
<b>Total liabilities .....</b>	<b>238,732</b>	<b>52,244</b>
<b>Net assets and liabilities .....</b>	<b>38,175</b>	<b>72,925</b>



## Notes, contd.:

### 7. Assets held for sale, contd.:

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.

According to the Agreement Berjaya will acquire a 75% equity share in Icelandair Hotels, subject to the Company holding a 25% equity share for a minimum of 3 years. Alongside the signing of the Agreement, the Company and Berjaya, have entered into a put and call option agreement regarding the remaining 25% equity share. Berjaya's due diligence on the Hotels has already been completed.

The enterprise value of the Hotels amounts to USD 136 million. The final purchase price of Berjaya's 75% share will be determined by the amount of net working capital and net interest-bearing debt at the date of delivery. The transaction results in the following cash flow to Icelandair Group; USD 15 million of the purchase consideration already paid by the Buyer, USD 29 million following the refinancing of the Hotels which was completed before year-end 2019 and USD 40 million on 28 February 2020 as the remaining balance of the purchase consideration, upon the delivery of the shares.

The Agreement is subject to various conditions, such as the necessary approvals pertaining to requirements under Act no. 19/1966 and the refinancing of the Hotels. Key conditions of the Agreement were fulfilled by year-end 2019, amongst them being USD 66 million refinancing of loans with Arion banki. The remaining balance is due at completion, which the parties have agreed will take place no later than 28 February 2020. The two-month extension is due to capital controls in Malaysia. The Buyer has provided the Seller with proof of funding of the outstanding amount. Due to the extension, the Buyer has agreed to pay interest of 6% per annum until the final payment is rendered. If the final payment is not paid a break fee of USD 10 million from what has already been paid becomes effective and Icelandair Group may rescind the Agreement without recourse to the Seller or the Company.

At year-end 2019 the Company still classifies the Hotels under assets held for sale. Once the transaction is completed in February, the Company will hold the Hotels as a 25% minority stake and account them as an associate in the Company's financial statement.

The Company's shares in Lindarvatn ehf., the company that owns the property of the upcoming Iceland Parliament Hotel, are not part of the sold entity.

### 8. Operating income

Transport revenue is specified as follows:

	2019	2018
Passengers .....	1,004,998	947,494
Passenger ancillary revenues .....	96,090	87,462
Cargo and mail .....	58,436	58,358
Total transport revenue .....	1,159,524	1,093,314

Other operating revenue is specified as follows:

Sale at airports and hotels .....	94,699	104,590
Revenue from tourism .....	104,196	133,543
Aircraft and cargo handling services .....	24,935	24,014
Maintenance revenue .....	4,746	2,760
Gain on sale of operating assets .....	2,461	4,767
Other operating revenue .....	22,287	27,417
Total other operating revenue .....	253,324	297,091

### 9. Operating expenses

Salaries and other personnel expenses are specified as follows:

	2019	2018
Salaries .....	340,518	350,804
Contributions to pension funds .....	51,361	51,853
Other salary-related expenses .....	37,429	43,421
Other personnel expenses .....	60,520	69,794
Total salaries and other personnel expenses .....	489,828	515,872

Average number of full year equivalents .....	4,715	4,606
Gender ratio for employees (male / female) .....	47 / 53	46 / 54

## Notes, contd.:

### 9. Operating expenses, contd.:

Aviation expenses are specified as follows:

	2019	2018
Aircraft fuel .....	323,518	298,771
Aircraft lease .....	32,174	36,532
Aircraft handling, landing and communication .....	133,585	136,443
Aircraft maintenance expenses .....	79,178	80,923
Total aviation expenses .....	568,455	552,669

Other operating expenses are specified as follows:

Operating cost of real estates and fixtures .....	17,526	37,631
Communication .....	25,205	27,758
Advertising .....	24,125	29,353
Booking fees and commissions .....	73,239	64,365
Cost of goods sold .....	14,398	17,011
Customer services .....	61,026	65,770
Tourism expenses .....	50,727	84,025
Other operating expenses .....	41,990	39,585
Total other operating expenses .....	308,236	365,498

### 10. Auditor's fee

Auditor's fees are specified as follows:

	Group auditors		Other auditors	
	2019	2018	2019	2018
Audit .....	480	555	21	3
Other services .....	92	66	4	34
	572	621	25	37

### 11. Depreciation and amortisation

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

	2019	2018
Depreciation of operating assets, see note 13 .....	143,878	129,792
Depreciation of right-of-use assets, see note 17 .....	28,932	0
Amortisation of intangible assets, see note 18 .....	4,463	3,655
Depreciation and amortisation recognised in profit or loss .....	177,273	133,447

### 12. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2019	2018
Interest income on cash and cash equivalents .....	2,106	1,620
Interest income on lease receivables .....	875	0
Other interest income .....	127	1,271
Net currency exchange gain .....	3,936	5,687
Finance income total .....	7,044	8,578
Interest expense on loans and borrowings .....	19,686	19,143
Interest expenses on lease liabilities .....	12,470	0
Other interest expenses .....	838	2,029
Finance costs total .....	32,994	21,172
Net finance costs .....	( 25,950 )	( 12,594 )

## Notes, contd.:

### 13. Operating assets

Operating assets are specified as follows:

	Aircraft and flight equipment	Buildings	Other property and equipment	Total
<b>Cost</b>				
Balance at 1 January 2018 .....	666,867	173,791	117,827	958,485
Additions .....	272,407	25,434	26,236	324,077
Sales and disposals .....	( 138,236 )	( 584 )	( 6,719 )	( 145,539 )
Reclassification .....	( 977 )	0	0	( 977 )
Assets classified as held for sale .....	0	( 82,949 )	( 42,474 )	( 125,423 )
Effects of movements in exchange rates .....	( 921 )	( 19,388 )	( 6,136 )	( 26,445 )
Balance at 31 December 2018 .....	799,140	96,304	88,734	984,178
Additions .....	233,218	0	20,228	253,447
Sales and disposals .....	( 241,141 )	( 1,030 )	( 2,439 )	( 244,610 )
Reclassification .....	0	12,420	( 12,420 )	0
Assets classified as held for sale .....	0	0	( 211 )	( 211 )
Effects of movements in exchange rates .....	( 110 )	( 4,183 )	( 2,697 )	( 6,990 )
Balance at 31 December 2019 .....	791,107	103,511	91,195	985,814
<b>Depreciation and impairment losses</b>				
Balance at 1 January 2018 .....	243,730	19,626	42,424	305,780
Depreciation .....	111,654	5,538	12,600	129,792
Sales and disposals .....	( 89,038 )	( 539 )	( 6,695 )	( 96,272 )
Assets classified as held for sale .....	0	( 4,873 )	( 18,060 )	( 22,933 )
Effects of movements in exchange rates .....	( 191 )	( 2,572 )	( 2,846 )	( 5,609 )
Balance at 31 December 2018 .....	266,155	17,180	27,423	310,758
Depreciation .....	125,178	5,393	13,307	143,878
Sales and disposals .....	( 90,955 )	( 799 )	( 4,074 )	( 95,828 )
Reclassification .....	0	2,345	( 2,345 )	0
Assets classified as held for sale .....	0	( 853 )	( 145 )	( 998 )
Effects of movements in exchange rates .....	( 344 )	( 1,153 )	( 900 )	( 2,397 )
Balance at 31 December 2019 .....	300,034	22,113	33,266	355,413
<b>Carrying amounts</b>				
At 1 January 2018 .....	423,137	154,165	75,403	652,705
At 31 December 2018 .....	532,985	79,124	61,311	673,420
At 31 December 2019 .....	491,073	81,398	57,929	630,400
Depreciation ratios .....	4-20%	2-6%	5-33%	

Acquisition of operating assets in 2019 amounted to USD 253.4 million. (2018: USD 324.1 million). Overhaul of own engines and aircraft spare parts in the amount of USD 233.2 million (2018: USD 272.4 million)

## Notes, contd.:

### 14. Mortgages and commitments

The Group's operating assets, aircraft and spare parts are mortgaged to secure debt. The remaining balance of the debt amounted to USD 308.9 million at year end 2019 (2018: USD 203.1 million). The Group owns 41 aircraft including 28 Boeing 757 and 5 Boeing 767. At year end, 10 aircraft were unencumbered.

### 15. Insurance value of aircraft and flight equipment

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

	Insurance value		Carrying amounts	
	2019	2018	2019	2018
Boeing - 35 / 36 aircraft .....	771,000	771,700	408,475	440,285
Other aircraft .....	60,300	60,075	41,207	43,148
Flight equipment .....	67,571	67,862	41,392	49,552
Total aircraft and flight equipment .....	898,871	899,637	491,074	532,985

### 16. Insurance value of buildings and other operating assets

The principal buildings owned by the Group are the following:

	Maintenance hangars	Hotels / staff apartm.	Office buildings	Other buildings	Under construction	Total
<b>2019</b>						
Official assessment value .....	36,631	7,926	26,588	12,304	0	83,449
Insurance value .....	70,771	14,720	58,049	38,171	0	181,711
Carrying amounts .....	29,612	5,339	24,097	22,350	0	81,398
Square meters .....	31,814	5,690	19,736	17,916	0	75,156
<b>2018</b>						
Official assessment value .....	32,773	10,155	25,314	12,262	177	80,681
Insurance value .....	65,649	14,030	52,299	23,194	7,018	162,190
Carrying amounts .....	31,152	6,163	24,197	12,225	5,387	79,124
Square meters .....	31,814	5,690	19,736	11,808	6,108	75,156

In 2018 hotel buildings both in operation and under construction were transferred to assets held for sale.

Insurance value of assets held for sale amounted to USD 59.4 million at year end. Official valuation of the same assets amounted to USD 32.0 million. The carrying amount at the same time was USD 76.2 million.

Official valuation of the Group's leased land for buildings at 31 December 2019 amounted to USD 16.6 million (2018: USD 16.5 million) and is not included in the consolidated statement of financial position.

Insurance value of the Group's other operating assets and equipment amounted to USD 65.6 million at year end 2019 (2018: USD 66.9 million). The carrying amount at the same time was USD 57.9 million (2018: USD 61.3 million).

## Notes, contd.:

### 17. Right of use assets

	Land & Real Estate	Aircraft	Other	Total
Recognised on initial application .....	198,106	69,690	1,068	268,864
Sublease agreements on initial application .....	( 1,467 )	( 15,907 )	( 110 )	( 17,484 )
Adjustments * .....	( 24,378 )	( 12,082 )	( 80 )	( 36,540 )
Adjusted balance .....	172,261	41,701	878	214,840
Adjustments for indexed leases .....	3,704	( 2,116 )	22	1,610
New or renewed leases .....	( 445 )	100,053	429	100,037
Depreciation .....	( 12,693 )	( 15,595 )	( 644 )	( 28,932 )
Reclassified to assets held for sale .....	( 145,862 )	0	( 47 )	( 145,909 )
Currency translation adjustment .....	( 7,614 )	0	3	( 7,611 )
Balance at 31 December 2019 .....	9,351	124,043	641	134,035

\* Adjustments include reclassification from right-of-use-assets to receivable and lease liability to payables and recalculation of lease agreements. In the case of aircraft it also includes reclassification of engine provision.

### 18. Intangible assets and goodwill

Intangible assets and goodwill are specified as follows:

	Goodwill	Trademarks and slots	Other intangibles	Total
<b>Cost</b>				
Balance at 1 January 2018 .....	152,564	36,013	8,687	197,264
Additions .....	4,563	0	2,749	7,312
Sales and disposals .....	0	0	( 2,017 )	( 2,017 )
Assets classified as held for sale .....	( 4,563 )	0	( 1,873 )	( 6,436 )
Effects of movements in exchange rates .....	( 731 )	0	( 558 )	( 1,289 )
Balance at 31 December 2018 .....	151,833	36,013	6,988	194,834
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 .....	149,087	36,013	7,446	192,546

#### Amortisation and impairment losses

Balance at 1 January 2018 .....	11,431	2,605	2,806	16,842
Amortisation .....	0	0	3,655	3,655
Sales and disposals .....	0	0	( 2,017 )	( 2,017 )
Assets classified as held for sale .....	0	0	( 978 )	( 978 )
Effects of movements in exchange rates .....	0	0	( 236 )	( 236 )
Balance at 31 December 2018 .....	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

#### Carrying amounts

At 1 January 2018 .....	141,133	33,408	5,881	180,422
At 31 December 2018 .....	140,402	33,408	3,758	177,568
At 31 December 2019 .....	137,130	33,408	4,693	175,231

## Notes, contd.:

### 19. 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:

	2019	2018
Goodwill .....	137,130	140,402
Trademarks and airport slots .....	33,408	33,408
Total .....	170,538	173,810

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

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

	Goodwill		Trademarks and slots	
	2019	2018	2019	2018
		Restated		Restated
Icelandair .....	81,402	82,647	23,893	23,893
Other group entities .....	55,728	57,755	9,515	9,515
Total goodwill .....	137,130	140,402	33,408	33,408

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

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
<b>2019</b>		
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 EBITDA growth .....	28.8%	-3,0-17,0%
WACC .....	10,0 - 12,3%	8,4-16,4%
Debt leverage .....	34,1-45,8%	27,1 - 45,8%
Interest rate for debt .....	3,8-4,2%	1,9 - 7,0%
<b>2018</b>		
Long term growth rate .....	2,5 - 3,0%	2,5 - 3,5%
Revenue growth:		
Weighted average 2018/2017 .....	4.8%	-14,9 - 32,8%
2019 - 2023 / 2018 - 2022 .....	7.8%	0,3 - 3,4%
Budgeted EBITDA growth .....	49.8%	1,2 - 25,5%
WACC .....	10,0 - 15,1%	8,9 - 12,4%
Debt leverage .....	10,2 - 45,3%	25 - 45,3%
Interest rate for debt .....	4,3 - 6,8%	2 - 7,7%



## Notes, contd.:

### 19. Impairment test, contd.:

The recoverable amounts of the cash-generating units were estimated to be higher than carrying amounts and no impairment was required. The estimated recoverable amount of the Icelandair unit exceeded its carrying amount by approximately USD 93 million (2018: USD 80 million). Management has identified that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The long term EBITDA would need to change by 0,6 percentage points for the estimated recoverable amount to be equal to the carrying amount.

### 20. Investment in associates

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

		2019		2018	
	Ownership	Carrying amount	Share of profit/loss in associates	Carrying amount	Share of profit/loss in associates
Lindarvatn ehf. ....	50%	15,435	( 69 )	16,118	( 37 )
ITF 1 slhf. ....	29%	9,009	196	8,594	1,611
Cabo Verde Airlines ....	36%	0	( 7,600 )	0	0
EBK ehf. ....	25%	1,154	210	1,183	0
Other investments ....		186	( 91 )	239	178
Total investments in associates .....		25,784	( 7,354 )	26,134	1,752
Non-controlling interest in Cabo Verde Airlines .....			2,286		
Profit of associates attributable to owners of the Company .....			( 5,068 )		

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 but the new hotel is expected to be 11.000 square meters.

ITF 1 slhf. is a fund managed by Landsbref. The Fund's purpose is to invest in Icelandic companies focusing on entertainment and experience for foreign tourists. Main focus is on whole year projects which contribute to better utilization of the infrastructure in the Icelandic Tourism industry.

On 1 March 2019, the Group invested in 36% stake in Cabo Verde Airlines ("CVA"). The Group views this investment as a long term development project and believes that there are opportunities to build CVA up as a strong hub and spoke airline with Cape Verde as a connecting hub between continents and at the same time develop Cape Verde as tourist destination. According to the CVA's business plan it was expected that it would be loss making during the first two years after the Group's acquisition and would become profitable in 2021.

The operating results for the last quarter of the year were below expectation. CVA is now seeking long term financing. If long term financing will not be secured, it might negatively affect the operation of CVA. At the end of 2019, Icelandair Group had no material balance sheet exposure to CVA but negative developments in the CVA operations might negatively impact the operations of Loftleiðir Icelandic in 2020. Loftleiðir Icelandic fleet plan assumes that 4-5 aircraft will be leased to CVA during 2020. If those plans change, it might temporary impact the revenue generation of Loftleiðir Icelandic because it would take some time to place the aircraft with other operators and such endeavours could entail some cost.

### 21. Deferred cost

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

	2019	2018
Deferred cost .....	5,775	623
Current portion, classified as prepayments among receivables .....	( 1,034 )	( 532 )
Total deferred cost .....	4,741	91
Deferred cost will be expensed as follows:		
Expensed in 2019 .....	1,034	532
Expensed in 2020 .....	1,006	91
Expensed in 2021 .....	1,006	0
Expensed in 2022 .....	1,006	0
Expensed in 2023 .....	1,006	0
Expensed in 2024 .....	717	0
Total deferred cost, including current portion .....	5,775	623

## Notes, contd.:

### 22. Non-current receivables and deposits

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

Non-current receivables and deposits are specified as follows:

	2019	2018
Loans, effective interest rate 6% / 6% .....	9,408	266
Lease receivable, interest rate 5% .....	21,279	0
Security deposits .....	9,012	6,499
Prepayments on aircraft purchases (see disclosure 36) .....	28,392	15,729
	68,091	22,494
Current maturities .....	( 23,124 )	( 5,129 )
Non-current receivables and deposits total .....	44,967	17,365
Contractual repayments mature as follows:		
Maturities in 2019 .....	-	5,129
Maturities in 2020 .....	23,124	3,681
Maturities in 2021 .....	26,706	7,988
Maturities in 2022 .....	3,089	217
Maturities in 2023 .....	4,021	899
Maturities in 2024 .....	3,665	0
Subsequent .....	7,486	4,580
Total non-current receivables and deposits, including current maturities .....	68,091	22,494

Non-current receivables and deposits denominated in currencies other than the functional currency comprise USD 3.7 million (2018: USD 1.4 million).

### 23. Income taxes

#### (i) Amounts recognised in profit or loss

	2019	2018
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences .....	( 14,822 )	( 12,240 )
Total tax expense recognised in profit or loss .....	( 14,822 )	( 12,240 )

#### (ii) Amounts recognised in other comprehensive income

Effective portion of changes in fair value of cash flow hedge .....	6,074	( 12,030 )
Total tax recognised in other comprehensive income .....	6,074	( 12,030 )

#### (iii) Reconciliation of effective tax rate

	2019	2018
Loss before tax .....	( 72,601 )	( 67,810 )
Income tax according to current tax rate .....	20.0% ( 14,520 )	20.0% ( 13,562 )
Non-deductible expenses .....	( 0.2%) 173	( 0.9%) 637
Other items .....	0.7% ( 475 )	( 1.0%) 685
Effective tax rate .....	20.4% ( 14,822 )	18.1% ( 12,240 )

## Notes, contd.:

### 23. Income taxes, contd.:

#### (iv) Recognised deferred tax liabilities

Deferred tax liabilities are specified as follows:

	2019	2018
Deferred tax liabilities 1 January .....	32,868	60,885
Deferred tax recognised in profit or loss .....	( 14,822 )	( 12,240 )
Income tax recognised in other comprehensive income .....	6,074	( 12,030 )
Exchange rate difference .....	( 52 )	( 556 )
Deferred tax liabilities transferred to assets held for sale .....	1,611	( 3,191 )
Deferred tax liabilities 31 December .....	25,679	32,868

#### (v) Deferred tax liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Operating assets .....	0	0	( 60,563 )	( 62,050 )	( 60,563 )	( 62,050 )
Intangible assets .....	0	0	( 307 )	( 277 )	( 307 )	( 277 )
Derivatives .....	0	6,665	( 13 )	0	( 13 )	6,665
Trade receivables .....	409	0	0	( 44 )	409	( 44 )
Operating Lease .....	1,572	0	0	0	1,572	0
	1,981	6,665	( 60,883 )	( 62,371 )	( 58,902 )	( 55,706 )
Tax loss carry-forwards .....	35,394	23,563	0	0	35,394	23,563
Other items .....	0	0	( 2,171 )	( 725 )	( 2,171 )	( 725 )
Deferred income tax .....	37,375	30,228	( 63,054 )	( 63,096 )	( 25,679 )	( 32,868 )

#### (vi) Movements in deferred tax balance during the year

		Recognised in profit or loss	Exchange rate difference	Recognised in other com- prehensive income and equity	Transferred to asset held for sale	
2019	1 January					31 December
Operating assets .....	( 62,050 )	1,095	204	0	188	( 60,563 )
Intangible assets .....	( 277 )	( 36 )	6	0	0	( 307 )
Derivatives .....	6,665	0	( 44 )	( 6,634 )	0	( 13 )
Trade receivables .....	( 44 )	503	2	0	( 52 )	409
Tax loss carry-forwards .....	23,563	12,762	( 82 )	0	( 849 )	35,394
Operating lease .....	0	2,395	15	0	( 838 )	1,572
Other items .....	( 725 )	( 1,897 )	( 49 )	560	( 60 )	( 2,171 )
	( 32,868 )	14,822	52	( 6,074 )	( 1,611 )	( 25,679 )
2018						
Operating assets .....	( 52,795 )	( 13,309 )	854	0	3,200	( 62,050 )
Intangible assets .....	( 679 )	214	188	0	0	( 277 )
Derivatives .....	( 3,468 )		3	10,130	0	6,665
Trade receivables .....	( 3,308 )	3,200	12	0	52	( 44 )
Tax loss carry-forwards .....	1,020	22,294	( 448 )	697	0	23,563
Other items .....	( 1,655 )	( 159 )	( 53 )	1,203	( 61 )	( 725 )
	( 60,885 )	12,240	556	12,030	3,191	( 32,868 )

### 24. Inventories

Inventories are specified as follows:

	2019	2018
Spare parts .....	18,535	19,546
Other inventories .....	4,154	6,405
Inventories total .....	22,689	25,951

## Notes, contd.:

### 25. Trade and other receivables

2019 2018

Trade and other receivables are specified as follows:

Trade receivables .....	69,281	69,243
Prepayments .....	16,881	30,036
Restricted cash .....	5,232	2,307
Lease receivables .....	6,598	0
Other receivables .....	26,887	16,712
Trade and other receivables total .....	124,879	118,298

At year end trade receivables are presented net of an allowance for doubtful accounts of USD 7.75 million (2018: USD 4.8 million).

Prepayment and prepaid expenses which relate to subsequent periods amounted to USD 16.9 million (2018: USD 30.0 million) at year end. The prepayments consist mainly of prepaid contractual obligations, insurance premiums, software licenses and leases.

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

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 34.

### 26. Cash and cash equivalents

2019 2018

Cash and cash equivalents are specified as follows:

Bank deposits .....	234,818	299,177
Cash on hand .....	255	283
Cash and cash equivalents total .....	235,073	299,460

### 27. Equity

#### Share capital

The Company's share capital amounts to ISK 5,437,660,653 according to its Articles of Association. Shareholders are entitled to receive dividend as declared from time to time and are entitled to one vote per share of one ISK. In accordance with a decision on Icelandair Group's Annual General Meeting on 8 March 2019, The Company's share capital was reduced by ISK 187,339,347 of nominal value as of 1 April 2019 and own shares in the same amount were cancelled. As a result of a Shareholders' Meeting on 24 April 2019 the Company's share capital was raised by 625,000,000 shares by issuing of new shares. These new shares were purchased by PAR Capital Management for USD 46 million.

The Company held no treasury shares at year end 2019.

#### Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to the Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve. The balance of the share premium account can be used to offset losses not covered by other reserves or to offset stock splits.

## Notes, contd.:

### 27. Equity, contd.:

#### Reserves

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

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

According to the Icelandic Financial Statement Act, companies must retain in a separate equity account recognised share in profit of subsidiaries and associates in excess of dividend received or declared.

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Reserve for profit share of affiliates	Total reserves
Balance 1 January 2018 .....	13,914	42,240	71,253	127,407
Share in profit of subsidiaries and associates in excess of dividend received .....			( 46,355 )	( 46,355 )
Currency translation differences .....		( 6,678 )		( 6,678 )
Net loss on hedge of investment, net of tax .....	( 7,773 )			( 7,773 )
Effective portion of changes in fair value of cash flow hedges, net of tax .....	( 40,339 )			( 40,339 )
Balance at 31 December 2018 .....	( 34,198 )	35,562	24,898	26,262
Share in profit (loss) of subsidiaries and associates in excess of dividend received .....			( 3,767 )	( 3,767 )
Currency translation differences .....		( 1,268 )		( 1,268 )
Net loss on hedge of investment, net of tax .....	( 2,241 )			( 2,241 )
Effective portion of changes in fair value of cash flow hedges, net of tax .....	26,463			26,463
Balance at 31 December 2019 .....	( 9,976 )	34,294	21,131	45,449

#### Dividend

No dividend was paid to shareholders in the year 2019 (2018: USD 7.3 million).

The Board of Directors proposes no dividend payment to shareholders in 2020 for the year 2019.

### 28. Earnings per share

Basic earnings per share is calculated by dividing net profit attributable to equity holders of the Parent by the weighted average number of outstanding shares during the year. The calculation of diluted earnings per share is identical to basic earnings per share as no convertible notes or stock options have been issued.

	2019	2018
<b>Basic earnings per share:</b>		
Loss for the year attributable to equity holders of the parent company .....	( 55,669 )	( 55,815 )
Weighted average number of shares for the year .....	5,243,635	4,812,661
Basic earnings per share in US cent per share .....	( 1.06 )	( 1.16 )
Diluted earnings per share in US cent per share .....	( 1.06 )	( 1.16 )

## Notes, contd.:

### 29. Loans and borrowings

This note provides information on contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost, and changes during the year. For more information on the Group's exposure to interest rate, foreign currency and liquidity risk, see note 34.

	Current interest bearing debt	Non-current interest bearing debt	Total
Total interest bearing debt 1 January 2018 .....	3,448	286,093	289,541
Proceeds from loans and borrowings .....	0	144,440	144,440
Transaction cost of long-term loans and borrowings .....	0	( 1,016 )	( 1,016 )
Repayment of borrowings .....	0	( 18,783 )	( 18,783 )
Cash flows related to financing activities .....	0	124,641	124,641
Proceeds from loans and borrowings .....	39,423	6,424	45,847
Loans on assets held for sale .....	0	( 35,651 )	( 35,651 )
Financing activities without cash flows .....	39,423	( 29,227 )	10,196
Indexation .....	0	225	225
Currency exchange difference .....	11	( 9,304 )	( 9,293 )
Expensed borrowing cost recognised in effective interests .....	0	491	491
Other liability related changes .....	11	( 8,588 )	( 8,577 )
Total interest bearing debt 1 January 2019 .....	42,882	372,919	415,801
Proceeds from loans and borrowings .....	0	145,200	145,200
Proceeds from loans and borrowings on assets held for sale .....	0	56,700	56,700
Transaction cost of long-term loans and borrowings .....	0	( 1,111 )	( 1,111 )
Repayment of borrowings .....	0	( 236,152 )	( 236,152 )
Cash flows related to financing activities .....	0	( 35,363 )	( 35,363 )
Loans on assets held for sale at beginning of period .....	35,651	0	35,651
Proceeds from loans and borrowings assets held for sale .....	8,444	0	8,444
Prepayment of borrowing assets held for sale .....	( 32,546 )	0	( 32,546 )
Loans on assets held for sale .....	( 9,398 )	( 56,700 )	( 66,098 )
Proceeds from loans and borrowings .....	12,364	0	12,364
Prepayment of borrowings .....	( 12,852 )	0	( 12,852 )
Financing activities without cash flows .....	1,663	( 56,700 )	( 55,037 )
Currency exchange difference .....	( 2,287 )	( 2,880 )	( 5,167 )
Expensed borrowing cost recognised in effective interests .....	0	1,052	1,052
Other liability related changes .....	( 2,287 )	( 1,828 )	( 4,115 )
Total interest bearing debt 31 December 2019 .....	42,258	279,028	321,286



## Notes, contd.:

### 29. Loans and borrowings, contd.:

Loans and borrowings are specified as follows:

	2019	2018
<b>Non-current loans and borrowings:</b>		
Secured bank loans .....	279,028	160,211
Unsecured bonds .....	0	212,708
Total loans and borrowings .....	279,028	372,919
Current maturities .....	( 37,700 )	( 225,406 )
Total non-current loans and borrowings .....	241,328	147,513
<b>Current loans and borrowings:</b>		
Current maturities of non-current liabilities .....	37,700	12,698
Unsecured bonds .....	0	212,708
Bank overdrafts and bank loans .....	42,258	42,882
Total current loans and borrowings .....	79,958	268,288
Total loans and borrowings .....	321,286	415,801

Terms and debt repayment schedule:

	Currency	Nominal interest rates year end 2019	Year of maturity	Total remaining balance 2019	2018
Secured bank loans .....	USD	4.4%	2022-2028	181,505	49,035
Secured bank loans .....	EUR	1.1%	2026-2028	65,184	72,983
Secured bank loans .....	ISK	5.4%	2024	32,339	38,193
Unsecured bond issue .....	USD			0	212,708
Secured bank loans - short term .....	USD	5.3%	2020	29,892	30,022
Unsecured bank loans - short term .....	ISK	6.7%	2020	12,366	12,860
Total interest bearing liabilities .....				321,286	415,801

Repayments of loans and borrowings are specified as follows:

Repayments in 2019 .....	-	268,287
Repayments in 2020 .....	79,958	12,809
Repayments in 2021 .....	38,116	12,919
Repayments in 2022 .....	42,032	16,674
Repayments in 2023 .....	37,896	26,494
Repayments in 2024 .....	54,177	7,729
Subsequent repayments .....	69,107	70,889
Total loans and borrowings .....	321,286	415,801

The company had issued two listed unsecured bond categories: ISIN N000107769982, amounting to USD 190 million and ISIN IS0000025427 amounting to USD 23.6 million which were fully redeemed during 2019 in the amounts of USD 87 million in Q1 and USD 126.6 million in Q2. The company refinanced part of the unsecured bonds with new secured bank loans in the amounts of USD 80 million from an Icelandic financial institution in March, and USD 65.2 million from CIT in December.

Sale lease back agreements were completed to meet the delivery of three Boeing Max aircraft in 2019.

## Notes, contd.:

### 30. Lease liabilities

This note provides information of the Group's lease liabilities, which are measured at amortised cost, and changes during the year. For more information on the Group's exposure to interest rate, foreign currency and liquidity risk, see note 34.

#### Lease liabilities is specified as follows:

	2019
Recognised on initial application .....	289,723
Adjustments * .....	( 55,717 )
Adjusted balance .....	234,006
Adjustments for indexed leases .....	1,610
New or renewed leases .....	110,750
Repayment of lease liabilities .....	( 30,694 )
Reclassified to liabilities held for sale .....	( 149,554 )
Next year payment of lease liabilities .....	( 22,980 )
Currency translation adjustment .....	( 7,665 )
Balance at 31 December 2019 .....	135,473

	Rate	Land & Real Estate	Aircraft	Other	Total
Lease liabilities in USD .....	4.72%	173	146,961	72	147,206
Indexed lease liabilities in ISK .....	4.76%	8,399	0	601	9,000
Lease liabilities in GBP .....	2.20%	1,604	0	0	1,604
Lease liabilities in other currency .....	3.41%	624	0	19	643
Total lease liability .....		10,800	146,961	692	158,453

#### Cash outflow for leases

Cash outflow for leases .....	17,182	26,652	655	44,489
Cash inflow for leases .....	( 458 )	( 7,200 )	0	( 7,658 )
Depreciation of right-of-use asset, see note 17 .....	( 12,862 )	( 15,474 )	( 596 )	( 28,932 )
Interest expenses from lease liability .....	( 6,892 )	( 6,846 )	( 56 )	( 13,794 )
Interest income from lease receivable .....	77	798	0	875
Effect on earnings before tax due to IFRS 16 .....	( 2,953 )	( 2,070 )	3	( 5,020 )

#### Maturity analysis

Repayments in 2020 .....	22,980
Repayments in 2021 .....	21,189
Repayments in 2022 .....	19,893
Repayments in 2023 .....	19,678
Repayments in 2024 .....	18,084
Subsequent repayments .....	56,629
Total lease liabilities .....	158,453

#### Extension options

Some property leases contain extension options exercisable by the Group up to ten years before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses where it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

\* Adjustments include reclassification from right-of-use-assets to receivable and lease liability to payables and recalculation of lease agreements. In the case of aircraft it also includes reclassification of engine provision

## Notes, contd.:

### 31. Non-current payables

Non-current payables correspond to accrued engine overhaul cost of leased aircraft and security deposits from lease contracts to be realized after 2020. Non-current obligations are specified as follows:

	2019	2018
Non-current payables .....	32,721	27,406
Current portion, classified in trade and other payables .....	( 9,303 )	( 12,852 )
Total non-current payables .....	23,418	14,554
Non-current payables are scheduled to be repaid as follows:		
Repayments in 2019 .....	-	12,852
Repayments in 2020 .....	9,303	925
Repayments in 2021 .....	11,173	3,712
Repayments in 2022 .....	1,088	896
Repayments in 2023 .....	5,107	4,264
Repayments in 2024 .....	4,317	2,454
Subsequent .....	1,733	2,303
Total non-current payables, including current maturities .....	32,721	27,406

### 32. Trade and other payables

Trade and other payables are specified as follows:

	2019	2018
Trade payables .....	58,392	55,909
Current portion of engine overhauls and security deposits from lease contracts .....	9,303	12,852
Other payables .....	153,305	154,005
Total trade and other payables .....	221,000	222,766

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 34.

### 33. 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.

	2019	2018
Deferred income is specified as follows:		
Sold unused tickets .....	154,180	171,537
Frequent flyer points .....	17,591	19,165
Other prepayments .....	32,209	24,148
Total deferred income .....	203,980	214,850

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 programme, can be redeemed takes into account the expected redemption rate and the timing of such expected redemptions. That amount is recognised as deferred income.

## Notes, contd.:

### 34. Financial risk management

#### Overview

The Group has exposure to the following financial risks:

- credit risk
- liquidity risk
- market risk

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

#### Risk management framework

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

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

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

#### Credit risk

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

#### Exposure to credit risk

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

	Note	Carrying amount	
		2019	2018
Non-current receivables and deposits .....	22	44,967	17,365
Trade and other receivables .....	25	107,998	88,262
Cash and cash equivalents .....	26	235,073	299,460
		<u>388,038</u>	<u>405,087</u>

#### Trade and other receivables

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

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

## Notes, contd.:

### 34. Financial risk management, contd.:

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

At year end 2019, the maximum exposure to credit risk for trade and other receivables by type of financial instrument was as follows:

	2019	2018
Credit cards .....	7,045	40,744
Trade receivables .....	62,236	28,499
	69,281	69,243
Prepayments on aircraft purchases .....	16,268	4,249
Lease receivables .....	6,598	0
Other receivables .....	32,732	44,806
	124,879	118,298

#### Impairment losses

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

	Allowance for		Allowance for	
	Gross	Impairment	Gross	Impairment
	2019	2019	2018	2018
Not past due .....	55,935	( 1,900)	54,276	( 157)
Past due 1-30 days .....	8,938	( 110)	7,876	( 290)
Past due 31-120 days .....	6,671	( 1,894)	5,537	( 1,981)
Past due 121-365 days .....	845	( 547)	3,309	( 507)
More than one year .....	4,642	( 3,299)	3,017	( 1,837)
Total .....	77,031	( 7,750)	74,015	( 4,772)

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

	2019	2018
Balance at 1 January .....	4,772	4,833
Impairment loss allowance, increase .....	173	869
Amounts written off .....	3,423	( 613)
Exchange rate difference .....	( 618)	( 15)
Impairment on assets held for sale transferred to assets held for sale .....	0	( 302)
Balance at 31 December .....	7,750	4,772

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

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

#### Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries.

## Notes, contd.:

### 34. Financial risk management, contd.:

#### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

#### Exposure to liquidity risk

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

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

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

<b>31 December 2019</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Within 12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
<b>Non-derivative financial liabilities</b>						
Unsecured bank loans .....	12,366	12,364	12,364	0	0	0
Secured loans .....	308,920	345,964	79,743	45,864	145,759	74,598
Lease liability .....	158,453	188,236	29,684	51,663	44,685	62,204
Payables & prepayments .....	244,418	244,418	221,000	11,173	10,512	1,733
	<b>724,157</b>	<b>790,982</b>	<b>342,791</b>	<b>108,700</b>	<b>200,956</b>	<b>138,535</b>
<b>Derivative financial liabilities</b>						
Commodity derivatives .....	966	945	1,115	( 170)	0	0
Forward exchange contracts ..	2,044	3,412	3,412	0	0	0
- Outflow .....	( 102,818)	( 103,115)	( 103,115)	0	0	0
- Inflow .....	104,862	106,527	106,527	0	0	0
Interest rate swaps .....	557	572	173	266	133	0
	<b>3,567</b>	<b>4,929</b>	<b>4,700</b>	<b>96</b>	<b>133</b>	<b>0</b>
<b>31 December 2018</b>						
	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Within 12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
<b>Non-derivative financial liabilities</b>						
Unsecured bond issue .....	212,708	237,997	237,997	0	0	0
Secured loans .....	203,093	231,723	60,826	17,656	66,536	86,705
Payables & prepayments .....	237,320	237,320	222,766	925	8,872	4,757
	<b>653,121</b>	<b>707,040</b>	<b>521,589</b>	<b>18,581</b>	<b>75,408</b>	<b>91,462</b>
<b>Derivative financial liabilities</b>						
Commodity derivatives .....	33,491	34,139	31,784	2,355	0	0
Forward exchange contracts ..	3,946	2,519	2,519	0	0	0
- Outflow .....	( 87,765)	( 89,363)	( 89,363)	0	0	0
- Inflow .....	91,712	91,882	91,882	0	0	0
Interest rate swaps .....	( 832)	( 858)	( 648)	( 24)	( 177)	( 9)
	<b>36,605</b>	<b>35,799</b>	<b>33,654</b>	<b>2,331</b>	<b>( 177)</b>	<b>( 9)</b>

Unused unsecured credit lines at year end 2019 amounted to USD 0 million (2018: USD 0 million). Unused secured credit lines at year end 2019 amounted to USD 55 million (2018: USD 0 million).



## Notes, contd.:

### 34. Financial risk management, contd.:

#### Market risk

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

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

#### Carbon risk

The Group is exposed to carbon price risk. In terms of volume, carbon emission is a fixed proportion of the fuel consumption but the price volatility of carbon has been greater although the consequential cash flow has been trivial compared to that of fuel costs. The price of carbon units stabilized in 2019 after tripling in 2018. The estimated commitment in terms of volume is 583.000 units of which 194.000 are covered by free allocation from the ETS. The 2020 compliance is expected the same, leaving the exposure dependent on price developments. The end of year price was 24,62 EUR/t.

#### 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	
	2019	2018
Increase in carbon prices by 10% .....	542	86
Decrease in carbon prices by 10% .....	( 542 )	( 86 )

#### Fuel risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in the event of a substantial fall in the price of fuel. The current Group strategy as reflected in the policy is to hedge between 40% and 60% of fuel consumption 12 months forward and up to 20% from 13-18 months forward. The hedge policy allows for both swaps and options traded with approved counterparties and within approved limits. At year end half of the estimated 12 months exposure of 350.000 tonnes was hedged with swaps.

#### Sensitivity analysis

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

	Effect on equity	
	2019	2018
Increase in fuel prices by 10% .....	12,656	14,724
Decrease in fuel prices by 10% .....	( 12,656 )	( 14,724 )

## Notes, contd.:

### 34. Financial risk management, contd.:

#### Currency risk

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

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

#### Exposure to currency risk

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

2019	ISK	EUR	GBP	DKK	SEK	CAD
Receivables / payables, net ...	47,050	( 1,441 )	( 4,979 )	( 763 )	( 304 )	366
Cash and cash equivalents ....	2,765	48,747	7,253	6,215	3,113	7,570
Secured bank loans .....	( 32,339 )	( 65,184 )	0	0	0	0
Lease receivables .....	0	0	757	0	0	0
Lease liabilities .....	( 7,940 )	( 287 )	( 1,604 )	( 252 )	0	0
Forward exchange contracts ..	106,307	( 15,328 )	( 13,453 )	( 14,299 )	( 20,514 )	( 32,707 )
Net statement of financial position exposure ...	115,843	( 33,493 )	( 12,026 )	( 9,099 )	( 17,705 )	( 24,771 )
Next 12 months forecast sales .....	256,686	227,704	40,114	25,173	26,409	77,662
Next 12 months forecast purchases .....	( 457,353 )	( 128,775 )	( 21,246 )	( 8,395 )	( 2,822 )	( 12,738 )
Capex thereof .....	( 23,210 )	( 3,032 )	( 123 )	0	0	0
Net 12 months currency exposure .....	( 84,824 )	65,436	6,842	7,679	5,882	40,153
2018	ISK	EUR	GBP	DKK	SEK	CAD
Receivables / payables, net ...	69,378	( 2,687 )	( 5,150 )	( 778 )	( 178 )	79
Cash and cash equivalents ....	10,263	15,604	5,376	1,768	6,118	3,340
Secured bank loans .....	( 35,987 )	( 61,554 )	0	0	0	0
Forward exchange contracts ..	89,256	( 32,052 )	( 8,926 )	( 6,899 )	( 12,867 )	( 23,500 )
Net statement of financial position exposure ...	132,910	( 80,689 )	( 8,700 )	( 5,909 )	( 6,927 )	( 20,081 )
Next 12 months forecast sales .....	274,856	243,087	40,939	25,670	26,894	79,162
Next 12 months forecast purchases .....	( 618,089 )	( 161,891 )	( 27,405 )	( 10,430 )	( 3,472 )	( 15,739 )
Capex thereof .....	( 25,066 )	( 628 )	( 1,146 )	0	0	0
Net 12 months currency exposure .....	( 210,323 )	507	4,834	9,331	16,495	43,342

## Notes, contd.:

### 34. Financial risk management, contd.:

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

	Average rate		Year-end spot rate	
	2019	2018	2019	2018
ISK .....	0.0081	0.0092	0.0082	0.0086
EUR .....	1.12	1.18	1.12	1.14
GBP .....	1.28	1.33	1.32	1.28
CAD .....	0.76	0.77	0.77	0.73
DKK .....	0.15	0.16	0.15	0.15
SEK .....	0.11	0.12	0.11	0.11

#### Sensitivity analysis

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

	Directly in	Profit or	Total
	equity	loss	effect on
			equity
<b>2019</b>			
ISK .....	2,715	( 763 )	1,952
EUR .....	1,226	1,453	2,679
GBP .....	1,076	( 114 )	962
DKK .....	1,144	( 416 )	728
SEK .....	1,641	( 225 )	1,416
CAD .....	2,617	( 635 )	1,982
<b>2018</b>			
ISK .....	1,017	( 3,492 )	( 2,475 )
EUR .....	2,564	3,891	6,455
GBP .....	714	( 18 )	696
DKK .....	552	( 79 )	473
SEK .....	1,029	( 475 )	554
CAD .....	1,880	( 274 )	1,606

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

#### Interest rate risk

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

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

	Carrying amount	
	2019	2018
<b>Fixed rate instruments</b>		
Commodity derivatives and forward exchange contracts .....	1,077	( 36,605 )
Interest rate swaps .....	( 95,899 )	( 99,796 )
	( 94,822 )	( 136,401 )
<b>Variable rate instruments</b>		
Financial assets .....	234,818	299,177
Financial liabilities .....	( 355,889 )	( 318,523 )
	( 121,071 )	( 19,346 )

## Notes, contd.:

### 34. Financial risk management, contd.:

#### **Fair value sensitivity analysis for fixed rate instruments**

The Group designates derivatives for the purpose of fuel, carbon, currency and interest rate hedging as hedging instruments under a fair value hedge accounting model. As such, market rates affect the Mark to Market of the derivatives and the market value of fixed rate financial assets. In addition, interest rate changes affect the fixed rate instruments carrying amount through equity.

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

	100 bp increase	100 bp decrease
<b>31 December 2019</b>		
Commodity derivatives and forward exchange contracts .....	( 4 )	4
Interest rate swaps .....	2,994	( 3,147 )
Fair value sensitivity (net) .....	2,989	( 3,143 )
<b>31 December 2018</b>		
Commodity derivatives and forward exchange contracts .....	145	( 148 )
Interest rate swaps .....	3,115	( 3,275 )
Fair value sensitivity (net) .....	3,260	( 3,423 )

#### **Cash flow sensitivity analysis for variable rate instruments**

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

	100 bp increase	100 bp decrease
<b>31 December 2019</b>		
Variable rate instruments .....	998	( 998 )
Cash flow sensitivity (net) .....	998	( 998 )
<b>31 December 2018</b>		
Variable rate instruments .....	155	( 155 )
Cash flow sensitivity (net) .....	155	( 155 )

#### **Capital management**

The Board's policy is to maintain a strong capital base for the benefit of investor, creditor and market confidence and to sustain future development of the business. The policy is to hold in cash and other highly liquid assets the equivalent of three months operating cost of which 30% of the benchmark can be in the form of unused lines of credit.

#### **Dividend**

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

## Notes, contd.:

### 35. Financial instruments and fair values

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

	Carrying amount 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Derivatives used for hedging .....	320	320	( 38,994 )	( 38,994 )
Unsecured bond issue .....	( 12,366 )	( 12,366 )	( 212,708 )	( 221,058 )
Secured loans .....	( 308,920 )	( 319,389 )	( 203,093 )	( 198,171 )
Lease liabilities .....	( 158,453 )	( 158,453 )	0	0
Total .....	( 479,419 )	( 489,888 )	( 454,795 )	( 458,223 )

#### Fair value hierarchy:

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

#### 31 December 2019

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Derivatives used for hedging .....		1,881		1,881
	0	1,881	0	1,881
<b>Financial liabilities</b>				
Unsecured bond issue .....			( 12,366 )	( 12,366 )
Secured loans .....			( 319,389 )	( 319,389 )
Lease liabilities .....			( 158,453 )	( 158,453 )
Derivatives used for hedging .....		( 1,561 )		( 1,561 )
	0	( 1,561 )	( 490,208 )	( 491,769 )

#### 31 December 2018

##### Financial assets

Derivatives used for hedging .....		666		666
	0	666	0	666

##### Financial liabilities

Unsecured bond issue .....			( 221,058 )	( 221,058 )
Secured loans .....			( 198,171 )	( 198,171 )
Derivatives used for hedging .....		( 39,660 )		( 39,660 )
	0	( 39,660 )	( 419,229 )	( 458,889 )

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

#### Non-derivative financial liabilities

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

#### Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract. This methodology is also used when valuing Commodity forwards and swaps.

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

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

## Notes, contd.:

### 36. Capital commitments

In 2013, Icelandair Group and Boeing signed an agreement for the purchase of sixteen Boeing 737 MAX8 and 737 Boeing MAX9 aircraft with an option to purchase additional eight aircraft. In Q1 2018, Icelandair took delivery of the first three Boeing 737 MAX8 aircraft from Boeing. Two aircraft were financed with Japanese operating lease with a call option (JOLCO) and one aircraft was financed through sale leaseback agreement. In Q1 2019, Icelandair took delivery of two Boeing 737 MAX8 and one Boeing 737 MAX9. They were all financed through sale lease back agreements.

When the Boeing 737 MAX aircraft was grounded in March 2019, the remaining delivery schedule of Boeing 737 MAX aircraft to Icelandair was as follows:

	2019	2020	2021
Boeing 737 MAX8 .....	1	2	1
Boeing 737 MAX9 .....	2	3	1
Total .....	3	5	2

In Q2 2019, Icelandair was expected to take delivery of the other three Boeing 737 MAX aircraft, i.e. one Boeing 737 MAX8 and two Boeing 737 MAX9. However, due to the suspension of the Boeing 737 MAX which was initiated in March 2019 and still persists, the delivery dates of these aircraft and all deliveries of future aircraft is uncertain at this point in time. Icelandair has already secured financing through sale leaseback agreements of one Boeing 737 MAX8 aircraft which was to be delivered in 2019 and one Boeing 737 MAX aircraft of the 2020 delivery schedule. Due to delay in delivery of the two 737 MAX9 aircraft that were to be delivered in 2019, their financing that had previously been secured has now expired.

### 37. Related parties

#### Identity of related parties

The Group has a related party relationship with its shareholders with significant influence, subsidiaries, associates, and with its directors and executive officers.

#### Transactions with management and key personnel

Salaries and benefits of management for their service to Group companies and the number of shares in the Company held by management are specified below. Salaries and benefits include contributions to pension funds.

	Salaries and benefits	Pension contribution	Incentive payments for previous year	Stock options	Number of shares held at year-end thousands
<b>2019</b>					
<b>Board of Directors:</b>					
Úlfar Steindórsson, Chairman .....	79.1	9.1			12,240
Guðmundur Hafsteinsson .....	43.9	5.1			
Heiðrún Emilía Jónsdóttir .....	56.2	7.6			400
Ómar Benediktsson .....	60.0	8.1			10,765
Svafa Grönfeldt .....	35.7	4.1			
Ásthildur Margrét Otharsdóttir .....	11.2	1.3			625
<b>Key employees:</b>					
Bogi Nils Bogason Group CEO .....	451.6	105.5			1,750
Eight executives of Group companies .....	1,833.9	304.7	106.9		1,680

Shares held by management and directors includes shares held by companies controlled by them.

Gender ratio for key employees (male / female) ..... 66/33



## Notes, contd.:

### 37. Related parties, contd.:

	Salaries and benefits	Pension contribution	Incentive payments for previous year	Stock options	Number of shares held at year-end thousands
<b>2018</b>					
<b>Board of Directors:</b>					
Úlfar Steindórsson, Chairman .....	77.8	8.4			12,240
Guðmundur Hafsteinsson .....	35.7	3.9			
Heiðrún Emilía Jónsdóttir .....	35.7	4.6			400
Ómar Benediktsson .....	59.0	7.5			
Ásthildur Margrét Otharsdóttir .....	55.5	6.0			
Georg Lúðvíksson .....	7.5	0.9			
Katrín Olga Jóhannesdóttir .....	13.4	1.3			13
<b>Key employees:</b>					
Bogi Nils Bogason Group CEO .....	299.7	79.4	104.1		1,750
Björgólfur Jóhannsson, former Group CEO * .....	384.6	102.0	73.2		300
Six executives of Group companies .....	1,215.5	218.4	226.3		261
Shares held by management and directors includes shares held by companies controlled by them.					
Gender ratio for key employees (male / female) .....	57 / 43				

\* Due to change in the position of President and CEO in 2018 the Company had an unpaid liability at the beginning of 2019 due to salaries and salary related cost amounting to USD 671 thousands in accordance with his employment agreement. The amount was expensed in the year 2018.

#### Transaction with associates

The Group purchased and sold services to associates for immaterial amounts in 2019 and 2018. At year end the Company had a long term receivable on it's associate Lindarvatn amounting to USD 9.3 million. Revenues from the Groups associate Cabo Verde Airlines amounted to USD 37.2 million and expenses USD 1.1 million.

#### Transaction with shareholders

There are no shareholders with significant influence at year end 2019. Companies which members of the Board and key employees control have been identified as being twenty six. These companies have been identified as related. Transactions with them consist of purchase and sale of services in the ordinary course of business on an arm's length basis which were immaterial in amounts both in 2019 and 2018.

### 38. Litigations and claims

The Icelandic Competition Authority (ICA) is investigating Icelandair's alleged predatory pricing in 2012-13 which could be considered as a breach of Article 11 of the Icelandic Competition Act. If the investigation will conclude that Icelandair had a dominant position in the market, and abused its position by predatory pricing, the ICA could lay an administrative fine on Icelandair for the alleged breach of the Competition Act. The ICA's decision may be appealed to the Icelandic Competition Appeals Committee. The Company's management is of the opinion that Icelandair's pricing in 2012-13 was fully compliant with the Competition Act. ICA has not acted further in the matter since Icelandair sent its arguments to ICA in November 2015. However, the bankruptcy estate of Wow Air has sued Icelandair and claimed compensation due to alleged predatory pricing in 2012-2016.

## Notes, contd.:

### 39. Group entities

The Company held ten subsidiaries at year end 2019 which are all included in the consolidated financial statements. The subsidiaries at year end are as follows:

	Ownership interest	
	2019	2018
Icelandair		
A320 ehf. ....	100%	100%
Fjárvakur - Icelandair Shared Services ehf. (Icelandair Shared Services) .....	100%	100%
IceCap Insurance PCC Ltd. ....	100%	100%
Iceeignir ehf. ....	100%	100%
Icelandair ehf. * .....	100%	100%
Other Group entities		
Lofleiðir - Icelandic ehf. ....	100%	100%
Flugfélag Íslands ehf. (Air Iceland Connect) .....	100%	100%
FERIA ehf. (VITA) .....	100%	100%
Iceland Travel ehf. ....	100%	100%
Flugleiðahótel ehf. (Icelandair Hotels) .....	100%	100%

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

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

### 40. Events after the reporting period

In January 2020, on back of news from Boeing on the ongoing process in cooperation with international aviation authorities of returning the Boeing 737-MAX aircraft safely back to service, Icelandair announced that the company does not expect the MAX in operation within its route network during the high season of the summer of 2020. This will have a minimal impact on Icelandair's flight schedule in 2020 as it was set up with the aim to minimize the impact of a possible further delay in the lifting of the MAX suspension. In addition, the Company has already entered into leasing agreements regarding three Boeing 737-800 aircraft and a decision has been made to keep more Boeing 757 aircraft in operation in 2020 than originally planned.

The financial impact of this further suspension will be considerably less this year than in 2019. In addition to the above-mentioned mitigating measures the current leasing agreements were made further in advance than in the year 2019 and are therefore on better terms. The additional aircraft will also be operated with Icelandair crews instead of external crews like last year that were leased with a short notice. The Company has therefore been able to organise its operations in 2020 with this possible scenario in mind.

## Notes, contd.:

### 41. Ratios

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

	2019	2018
Current ratio .....	0.86	0.71
Equity ratio .....	0.29	0.32
Equity ratio without IFRS16 .....	0.36	0.32
Intrinsic value of share capital .....	10.92	12.07

### 42. Significant accounting policies

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

#### a. Basis of consolidation

##### (i) Subsidiaries

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

##### (ii) Investments in associates

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

##### (iii) Transactions eliminated on consolidation

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

#### b. Currency exchange

##### (i) Currency transactions

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

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

## Notes, contd.:

### 42. Significant accounting policies, contd.:

#### (ii) Subsidiaries with other functional currencies

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

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

### c. Operating income

#### (i) Transport revenue

Passenger ticket sales are recognised as revenue when transportation has been provided. Sold refundable documents not used within twelve months from the month of sale are recognised as revenue. Non-refundable documents are recognized as revenue two months after expected transport if not used. Revenue from mail and cargo transportation is recognised when transportation has been provided.

#### (ii) Customer loyalty programmes

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits (frequent flyer points) and other components of the sale. Awards can also be generated through transportation services supplied by the Group. Through transportation services the amount allocated to the points is estimated by reference to the fair value of the services for which they could be redeemed, since the fair value of the points themselves is not directly observable. The fair value of the services is calculated taking into account the expected redemption rate and timing of the redemptions. The amounts are deferred and revenue is recognised only when the points are redeemed and the Group has fulfilled its obligations to provide the services. The amount of revenue recognised in those circumstances is based on the number of points that have been redeemed in exchange for services, relative to the total number of points that is expected to be redeemed.

#### (iii) Aircraft and aircrew lease

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

#### (iv) Other operating revenue

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

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

### d. Employee benefits

#### (i) Short-term employee benefits

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

#### (ii) Defined contribution plans

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

## Notes, contd.:

### 42. Significant accounting policies, contd.:

#### e. Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right of control the use of identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of lease in IFRS 16.

#### (i) As a lessee

The Group recognizes a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives receivable.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right of use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

## Notes, contd.:

### 42. Significant accounting policies, contd.:

#### e. Leases, contd:

##### (ii) Short-term leases and leases of low-value

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value asset and short-term leases, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

##### (iii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

#### f. Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of discounts on provisions, foreign currency losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether currency movements are in a net gain or net loss position.

## Notes, contd.:

### 42. Significant accounting policies, contd.:

#### g. Income tax

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

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

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

#### h. Inventories

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

#### i. Operating assets

##### (i) Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use.

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

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

##### (ii) Aircraft and flight equipment

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

##### (iii) Subsequent expenditure

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



## Notes, contd.:

### 42. Significant accounting policies, contd.:

#### (iv) Depreciation

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

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

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

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

#### j. Intangible assets and goodwill

##### (i) Goodwill and other intangible assets with indefinite useful lives

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

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

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

##### (ii) Other intangible assets

Other intangible assets acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative years are as follows:

	Useful life
Software .....	3 years
Other intangible assets .....	6-10 years

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

##### (iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

## Notes, contd.:

### 42. Significant accounting policies, contd.:

#### k. Leased assets

Leases of operating assets that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

#### l. Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets or deferred tax assets which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and operating assets are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

#### m. Financial instruments

##### (i) Non-derivative financial assets

Trade receivables and debt securities are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and financial assets measured at amortised cost.

## Notes, contd.:

### 42. Significant accounting policies, contd.:

#### Financial assets at fair value through profit or loss

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL. These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at fair value through profit or loss comprise marketable securities actively managed by the Group's treasury department to address short-term liquidity needs.

#### Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets measured at amortised cost comprise cash and cash equivalents and trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

#### (ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities other than derivatives comprise loans and borrowings and trade and other payables.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

#### (iv) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency, fuel price and interest rate risk exposures (see note 34). Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss. The Group holds no trading derivatives.

## Notes, contd.:

### 42. Significant accounting policies, contd.:

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

#### *Cash flow hedges*

When a derivative is designated as a cash flow hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period during which the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the hedged future cash flows is no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

#### *Net investment hedges*

When a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of foreign exchange gains and losses is recognised in other comprehensive income and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of foreign exchange gains and losses on the non-derivative is recognised immediately in profit or loss. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

#### *Other non-trading derivatives*

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

### n. Share capital

#### *Ordinary shares*

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

#### *Repurchase and reissue of share capital*

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

## Notes, contd.:

### 42. Significant accounting policies, contd.:

#### o. Impairment

##### (i) Non-derivative financial assets

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

Objective evidence that financial assets are impaired includes:

Default or delinquency by a debtor;

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

Indications that a debtor or issuer will enter bankruptcy;

Adverse changes in the payment status of borrowers or issuers;

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

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

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

##### (ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangibles assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

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

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

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group of units) on a pro rata basis.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

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

## Notes, contd.:

### 42. Significant accounting policies, contd.:

#### p. Provisions

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

#### Overhaul commitments relating to aircraft under operating leases

With respect to the Group's operating lease agreements, where the Group has a commitment to maintain the aircraft, provision is made during the lease term for the obligation based on estimated future cost of major airframe and certain engine maintenance checks by making appropriate charges to the profit or loss calculated by reference to the number of hours or cycles operated.

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

#### q. Deferred income

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

#### Icelandair's frequent flyer program

Frequent flyer points earned or sold are accounted for as a liability on a fair value basis of the services that can be purchased for the points. The points are recognized as revenue when they are utilized or when they expire.

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

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

#### r. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for treasury shares held, for the effects of all dilutive potential ordinary shares.

#### s. Segment reporting

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

## Notes, contd.:

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### 42. Significant accounting policies, contd.:

#### s. Segment reporting contd.:

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

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

### 43. Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- IFRS 17 Insurance Contracts.



# Corporate Governance Statement

## The framework

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

The Company complies in all main respects to the rules mentioned above. No government organization has found the Company to be in breach with any rule or regulation regarding corporate governance.

## Internal audit and risk management

The Group's Audit Committee oversees how the management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The committee shall oversee the annual accounts of the Company and the Group's consolidated accounts. The committee is responsible for evaluation of the independence and the eligibility of both the Company's auditor and auditing firm. The committee shall make suggestions to the Board of Directors regarding the selection of the Company's auditor. The Audit Committee held eleven meetings in 2019.

Audit Committee:

Heiðrún Jónsdóttir, Chairman  
Guðmundur Hafsteinsson  
Svafa Grönfeldt

## Values and code of ethics and corporate responsibility

The Company's values are:

Passion  
Simplicity  
Responsibility

On 25 May 2009 the Board of Directors approved a Code of Ethics which was amended on 5 January 2011 and 18 November 2016. The Code of Ethics is accessible to all Company's employees through the Company's intranet, MyWork.

## Compensation Committee

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

Compensation Committee members:

Úlfar Steindórsson, Chairman  
Ómar Benediktsson

## Corporate Governance Statement, contd.:

### Nomination Committee

Icelandair Group operates a Nomination Committee which has the role to be advisory in the selection of members of the Board of Directors and it will bring its proposals for the Annual General Meeting or other Shareholders' meetings where election to the Board of Directors is on the agenda.

The Nomination Committee shall put forward its rationalized opinion concurrently to the notification of the AGM or as soon as possible in conjunction with other shareholder meetings. The committee's opinion shall be made available to shareholders in the same way as other proposals to be submitted to the meeting. The committee operates according to rules of procedures which are set by the committee itself and approved by the Board of Directors. The Nomination Committee shall make changes to its rules of procedures accordingly or put them forward unaltered and have approved by the Board of Directors annually.

The Nomination Committee consists of three members. The Shareholders meeting elects two members, one man and one woman, which are nominated by shareholders. When the Shareholders Meeting has elected members, the Board of Directors nominates one member to the committee.

All members shall be independent of the Company and its executives. The member nominated by the Board of Directors shall be independent of the Company's largest shareholders. The same criteria shall apply to the assessment of independence of Committee members as to the assessment of the independence of Board Members according to The Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, SA Business Iceland and Nasdaq Iceland. The Nomination Committee held six meetings in 2019 and furthermore had meetings with Icelandair Group's management team and the largest shareholders.

Nomination Committee members:

Hjörleifur Pálsson, Chairman  
Helga Árnadóttir  
Úlfar Steindórsson

### The Board of Directors and Executive Committee

#### Board of Directors

*Úlfar Steindórsson, Chairman*

Úlfar Steindórsson is CEO and Chairman of Toyota in Iceland ehf. and Ju ehf. He was CEO of Primex ehf. in Siglufjörður from 2002 to 2004 and CEO of the New Business Venture Fund from 1999 to 2002. Úlfar is Chairman of the Board of Bilautleigan ehf., Okkar bilaleiga ehf., Motormax, Kraftvélar ehf. og Kraftleigan ehf. and TK bilar ehf. He is Board member of Toyota in Iceland ehf., Bláa lónið ehf., Fagkaup ehf., UK fjarfestingar ehf., Skorri ehf., Keila ehf. and My Car ehf. Úlfar holds a Cand. Oecon. degree from the University of Iceland and an MBA from Virginia Commonwealth University. He joined the Board of Icelandair Group on 15 September 2010.

*Ómar Benediktsson, Deputy Chairman*

Omar Benediktsson is CEO of Farice ehf. He is a Board Member of Landsnet hf. and Husafell Resort ehf. Omar has held various positions in the tourism and aviation industry in the past 30 years, for example as a CEO of Island Tours, Islandsflug, Air Atlanta and SmartLynx airlines, in addition to various board positions. Omar holds a Cand. Oecon. degree from the University of Iceland. He joined the Board on 3 March 2017.

*Guðmundur Hafsteinsson, Board Member*

Guðmundur Hafsteinsson is an investor and entrepreneur and previously lead product development for Google Assistant at Google. He joined Google in 2014 subsequent to the merger of Google and Emu, a chat-based virtual assistant start-up he founded in 2012. Prior to the founding of Emu, he was VP Product at Siri, and stayed on after the acquisition by Apple through the launch of Siri on iPhone 4S. Prior to Siri/Apple, Guðmundur was a Senior Product Manager at Google, where he managed the initial launches of Google Maps for mobiles and Google Voice Search. Guðmundur holds an MBA degree from MIT and a BSc. degree in Electrical and Computer Engineering from the University of Iceland. He joined the Board of Icelandair Group on 8 March 2018.

## Corporate Governance Statement, contd.:

### **Board of Directors, contd.:**

#### *Heidrun Jonsdottir, Board Member*

Heidrun Jonsdottir is an attorney. She is a member of the Board of Directors at Islandsbanki and Reginn. Heidrun is the former Chairman of the Board of Directors at Gildi Pension Fund, Nordlenska and Islensk Verdbref and also a former Vice Chairman of the Icelandic Bar Association. She is a former member of the Board of Siminn hf., Olis and Istak. Heidrun was the Public Relations Officer of Landssiminn hf. from 2001 to 2003, Managing Director and Partner at Lex Legal Services from 2003 to 2005. From 2006 until 2012 she was Vice President of legal affairs and public relations at Hf. Eimskipafelag Islands. Heidrun has a law degree from the University of Iceland, is a District Court Attorney and has finished an Advanced Management Program from IESE Business School in Barcelona. She joined the Board of Icelandair Group on 8 March 2018.

#### *Svafa Grönfeldt, Board Member*

Svafa Grönfeldt is a founding member of MIT's innovation accelerator DesignX, and a co-founder of the MET fund, a Cambridge based seed investment fund. Svafa is a member of the Board of Directors at Össur since 2008 and Origo since 2019. Previous positions include Chief Organizational Development Officer of Alvogen, President of Reykjavik University and Deputy to the CEO of Actavis Group. Svafa holds a PhD in Industrial Relations from London School of Economics. She joined the Board of Icelandair Group on 8 March 2019.

### **Executive committee**

#### *Bogi Nils Bogason, President & CEO*

Bogi Nils started his career within Icelandair Group as CFO in October 2008. He was the CFO of Askar Capital from January 2007 until he joined Icelandair Group and the CFO of Icelandic Group from 2004-2006. Bogi Nils served as an auditor and partner at KPMG in Iceland during the years from 1993-2004. Bogi Nils holds a Cand Oecon degree in Business from the University of Iceland and became licensed as a chartered accountant in 1998. He was appointed President & CEO of Icelandair Group on 4 December 2018.

#### *Arni Hermannsson, Managing Director Loftleidir Icelandic*

#### *Birna Ósk Einarsdóttir, Chief Commercial Officer*

#### *Elísabet Helgadóttir, Chief Human Resources Officer*

#### *Eva Sóley Guðbjörnsdóttir, Chief Financial Officer*

#### *Gunnar Már Sigurfinnsson, Managing Director Icelandair Cargo*

#### *Ivar S. Kristinsson, Chief Fleet and Network Officer*

#### *Jens Þórðarson, Chief Operating Officer*

#### *Tomas Ingason, Chief Information Officer*

### **Board of Directors**

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

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

## Corporate Governance Statement, contd.:

### **Board of Directors, contd.:**

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

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

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

On 12 September 2007 the Board of Directors approved Rules on Working Procedures for the Board which were amended on 10 August 2012 and 9 February 2018. The Rules on Working Procedures are accessible to the Board of Directors and the management through the Board's intranet, Admincontrol. In accordance with article 14 of the Rules on Working Procedures the Board of Directors must annually evaluate its work, size, composition and practices, and must also evaluate the performance of the CEO and others responsible for the day-to-day management of the Company and its development. The annual performance assessment is intended to improve working methods and increase the efficiency of the Board. The assessment entails e.g. evaluation of the strengths and weaknesses of the Board's work and practices and takes into consideration the work components which the Board believes may be improved.

The Board of Directors elects the members of the Compensation Committee and the Audit Committee. These sub-committees adhere to the Rules on Working Procedures. The Nomination Committee has its own Rules of Procedures which are approved by the Board. The Board of Directors convened 33 times during the year and all Board Members attended almost all meetings. All the current members of the Board of Directors are independent from the Company. Ásthildur Margrét Otharsdóttir, who was a board member until 8 March 2019, was not independent from the Company. All Board members were independent of the Company's major shareholders in 2019.

# Non-Financial Reporting

## Business Model

Icelandair Group has operated in the international airline and tourism sectors for decades. The Company, however, has been in the process since 2018 of shifting towards a sheer focus on aviation. Its core business is built around Icelandair's route network and the unique geographical location of Iceland which serves as a connecting hub between Europe and North America. Sustainable value creation for the Company's shareholders and other stakeholders lies at the heart of Icelandair Group's business model. Five strategic pillars support the Company's vision of "Bringing the spirit of Iceland to the world" and its mission of "Delivering smooth and enjoyable travel experiences". These pillars are: To ensure a culture of passion and performance, becoming the most customer-focused airline in the Company's markets, achieving excellence in all operations, driving sustainable and profitable growth, and to become an industry leader in responsibility.

## Environment

Icelandair Group is an environmentally-conscious company, committed to addressing its environmental responsibilities. Icelandair is certified to the highest level of the IEnvA environmental certification program from IATA, which requires demonstration of ongoing environmental performance improvements. Icelandair Hotels are certified to the ISO14001 environmental standard.

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

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

Minimising the environmental impact of its operations is an important part of Icelandair Group's business plan with the focus on employing sustainable practices and ensuring optimal use of the resources at our disposal.

Icelandair Group is committed to minimising its impact on the environment by continuously improving the Company's environmental performance, by using sustainable materials and disposing of them in a responsible way, by conducting business with environmentally friendly suppliers and by adhering to environmental protection principles.

In addition to compliance with applicable laws and regulations, the Company demonstrates its commitment to this policy through:

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

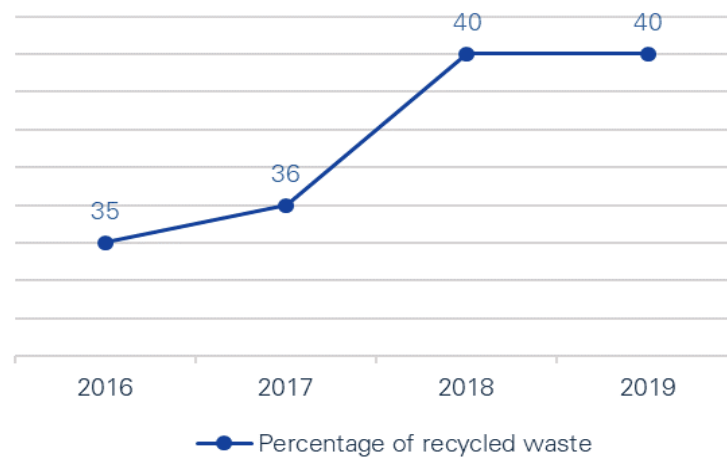
Icelandair Group is committed to supporting continuous improvements by setting measurable targets, raising awareness and benchmarking performance.

## Non-Financial Reporting, contd.:

### Environment, contd.:

Icelandair is in cooperation with Klappir – Green Solutions to track and follow the environmental aspects of Icelandair, to foster the data, ensure traceability, integrity, transparency, usefulness and reliability of the data set.

One of the environmental aspects Icelandair manages is waste. The amount of recycled waste has increased in the past few years as a result of various projects to improve waste recycling overall within the Company. Icelandair continuously seeks to find new ways to recycle and increase recycling.



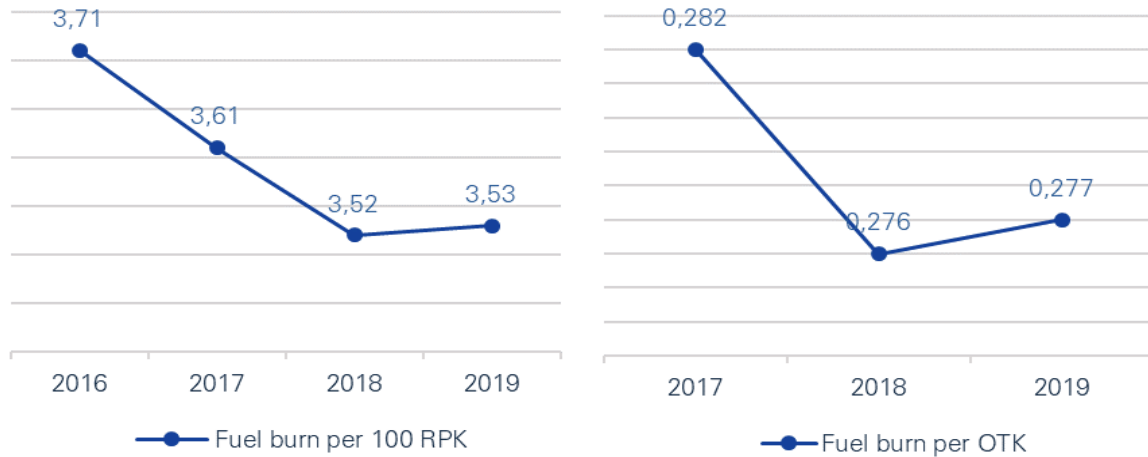
Icelandair is currently implementing more eco-friendly on-board products, working towards minimizing single-use plastics in the aircraft cabins and seeking ways to minimise waste on-board.

Icelandair and Air Iceland Connect have offered passengers the option to offset the carbon footprint of their air travel since September 2019. The new carbon calculator makes it easy to calculate the carbon footprint associated with each flight, and the contribution necessary to offset it. Contributions from passengers made through the carbon calculator are used by Kolvidur – Iceland Carbon Fund to cultivate forests in Iceland. The contributions from passengers in the year 2019 are equivalent to planting about 5,500 trees.

In recent years, many changes have been made to Icelandair's operations to reduce CO<sub>2</sub> emissions. These include implementation of winglets on aircrafts, operational manoeuvres during descent and landing and an active fuel monitoring program as well as training of pilots. Those actions have shown visible results in increased fuel efficiency and therefore reduced emissions. However, the suspension of the Boeing 737-MAX aircraft, which are more fuel-efficient than Icelandair's current fleet, impacts the results for fuel burn per 100 revenue passenger kilometres (RPK) and fuel burn per Operational tonne kilometre (OTK) in 2019.

## Non-Financial Reporting, contd.:

### Environment, contd.:



### Society

Icelandair Group is proud of its role in the Icelandic community and focuses on creating sustainable value for its stakeholders by integrating a wide range of efforts to ensure social responsibility.

Icelandair Group is a leading shareholder of the Icelandic Tourism Fund, an investment fund focused on new projects that increase the diversity of Icelandic tourism and strengthens its infrastructure. A key focus is on all-year round projects that provide additional recreational options for tourists and make better use of the existing infrastructure, in particular over the winter season.

The main objective of Icelandair's Special Children Travel Fund, established in 2003, is to help children suffering from long-term illnesses or other difficult circumstances to travel with their families. The fund is supported both directly by Icelandair and through the generous donations of its customers. In 2018, 40 children and their families received travel grants from the fund to go on their "dream journey".

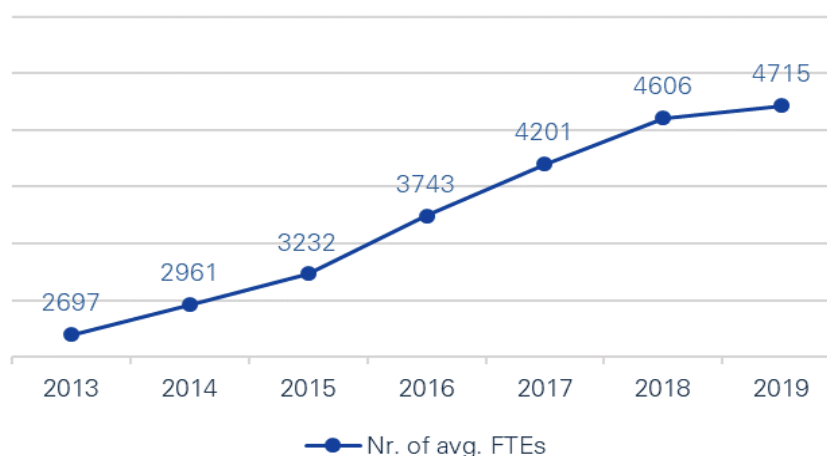
Icelandair Group has since December 2014 been one of the main sponsors of ICE-SAR, the Icelandic Search and Rescue operation. The Company's objective is to provide support to enable the organisation to engage in efficient accident prevention and rescue efforts and to enhance the safety of tourists travelling in Iceland. The purpose of the co-operation is to represent an important factor in promoting safer tourism by various means, including the sponsorship and marketing of the [www.safetravel.is](http://www.safetravel.is) website to tourists through Icelandair Group's distribution channels. Icelandair Group's subsidiary, Icelandair Hotels, promotes safer tourism in all its properties and has conversations with its guests by distributing safe travel cards and educate them about the road system and weather conditions, for example.



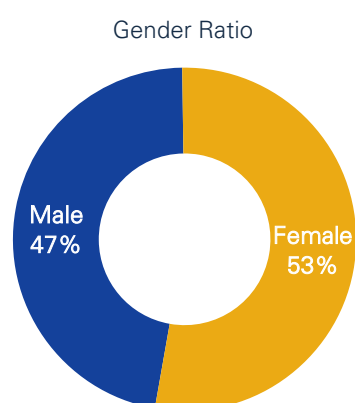
## Non-Financial Reporting, contd.:

### Employees

After a turbulent year characterized by unparalleled external events both internationally and domestically Icelandair Group (Icelandair) is experiencing a year of rebalancing and refocus from where it is set to return to a profitable trajectory guided by a new strategic vision. Against this backdrop the number of full-time equivalents (FTEs) only grew 1% from the year before compared to a compounded annual growth of 8% over the past seven years.



Icelandair Group's People & Culture (P&C) strategy emphasizes equality and non-discrimination and embraces diversity. This focus, which ensures that employees are provided with equal opportunities and equal rights, is an integral part of the Equal Rights Policy and Equal Rights Plan which has been approved by the Executive Committee. The numbers speak for themselves as the gender ratio is almost equal – with male/female split of 47/53 out of 100.



According to the Gender Equality Act No. 10/2008 the Company has implemented an Equal Pay Policy in order to improve and advocate gender equality and acquire an Equal Pay Certification. Icelandair actively promotes this legislation which prohibits any gender-based discriminatory practices and requires all employees who work in roles of same value to be paid the same. Icelandair Group and its subsidiaries have been certified and received the Equal Pay Certificate.

## Non-Financial Reporting, contd.:

### Employees, contd.:

Icelandair seeks to attract talented and qualified employees to ensure that the Company can meet and exceed its current and future operational challenges while ensuring and facilitating a good and progressive working culture in which the employees can both thrive and perform at their best.

Therefore, it is imperative that the employees of Icelandair have and display a growth mindset where they are both willing and able to learn and develop so both may gain. To that end, Icelandair's People & Culture has taken measures to supply its diverse employee groups with access to market leading learning and development material. By the same token, Icelandair upholds high safety and security standards and has in place detailed action plans designed to achieve these goals with mandatory training carried out for all employees working roles that are designated as part of aviation safety and work environment that is considered risk to occupational health and safety. All new employees go through a company orientation which includes health and safety training when they commence their employment with the Company.

General health and well-being of Icelandair employees is a priority where the Company endeavours towards providing attractive and exciting place to work where people can thrive and challenge themselves to perform at their best. The Company has in place a comprehensive Health & Attendance Policy under which – among other things – Icelandair offers various health-related programs and initiatives. In its effort to promote a healthy workplace for all, Icelandair has taken action against bullying and gender-related harassment and violence as a part of on-going effort to eradicate such employee behaviour.

At last but not least, Icelandair strives to ensure that all employees feel like they are part of one team. This manifest itself in the principles which provide the foundation of Icelandair's strong company culture characterized by simplicity, responsibility and passion. This is followed up and tracked by annual workplace audit surveys which measures various indicators such as employee engagement, leadership, company performance in various areas and adherence to relevant policies and practices. The survey also monitors and evaluates Icelandair's People & Culture strategy and how specific interventions in P&C policies have made an impact post prior workplace audit. This past year's audit showed that 59,5% of the employee population was both engaged and committed, which means that their attitude was positive both towards the job that they perform and towards the company that they work for. This measure is further supported with a high net employee promotion score of 43 out of 100 (% of promoters less % of detractors). These two key measures from the workplace audit both show and reinforce the positive organizational impact of the P&C strategy.

Icelandair's new strategic vision – which was introduced in 2019 – includes multiple strategic initiatives that all align with the Company's vision and mission. A culture of passion and performance is one of these initiatives where People & Culture is taking the lead in Icelandair which places employee matters at the top of the management agenda.

### Human Rights Policy

Icelandair Group respects human rights, as set out in the UN Universal Declaration of Human Rights and requires all its employees to treat others with trust, dignity, respect, fairness and equity. Icelandair has implemented an e-learning module on the Company's Code of Conduct for all new employees which is mandatory from 2020.

All cabin crew have been trained in relation to human trafficking awareness and preventive actions. The Company respects fair labour practices and contractors, sub-contractors or work agencies working for Icelandair Group shall ensure that wages, wage-related obligations and safety in the workplace all comply with Icelandair Group's standards.

Importance is placed on ensuring that employees respect the equal rights policy and conduct themselves within its spirit. All discrimination, such as on the basis of gender, age, origin, religion, operating field, opinions or position in other respects, is not permitted.

Early 2018, Icelandair Group sharpened its policy and actions against bullying, and sexual and gender-related harassment and violence. The policy and its related actions include clear procedures and preventive measures. Information on the policy can be accessed on the Company's intranet, together with a plan of action that details the options available to employees who feel victimised. All managers received appropriate training and open lectures were held in 2019, open for all employees to attend.

## Non-Financial Reporting, contd.:

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### **Anti-corruption and bribery policy**

Icelandair Group conducts all its business in an honest and ethical manner and the integrity of each and every member of staff serves to maintain the good reputation and trust of the Company. All persons, representing or performing services for or on behalf of Icelandair Group must comply with applicable anti-bribery and anti-corruption legislation and policies, and Icelandair Group's Code of Conduct.

### **Futher information**

Further information about Icelandair Group's Corporate Social Responsibility and non-financial aspects of the business is published in the Company's Annual Report as well as on the Company's website, [www.icelandairgroup.is](http://www.icelandairgroup.is).

## Quarterly statements (unaudited)

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

	Q1	Q2	Q3	Q4	Total
Year 2019	Restated				
Operating income .....	244,218	407,152	533,943	319,182	1,504,495
Operating expenses					
excluding depreciation .....	( 270,594)	( 392,969)	( 395,975)	( 306,981)	( 1,366,519)
Operating (loss) profit bef. depr. (EBITDA) .....	( 26,376)	14,183	137,968	12,201	137,976
Depreciation .....	( 37,587)	( 33,901)	( 56,901)	( 48,884)	( 177,273)
Operating (loss) profit (EBIT) .....	( 63,963)	( 19,718)	81,067	( 36,683)	( 39,297)
Net finance expense .....	( 9,294)	( 8,982)	( 4,150)	( 3,524)	( 25,950)
Share of profit (loss) of associates .....	405	( 7,420)	( 450)	111	( 7,354)
(Loss) profit before income tax .....	( 72,852)	( 36,120)	76,467	( 40,096)	( 72,601)
Income tax .....	13,355	6,240	( 15,007)	10,234	14,822
<b>(Loss) profit</b> .....	<b>( 59,497)</b>	<b>( 29,880)</b>	<b>61,460</b>	<b>( 29,862)</b>	<b>( 57,779)</b>
Other comprehensive profit (loss) .....	9,539	( 6,608)	8,546	11,469	22,946
<b>Total comprehensive (loss) income</b> .....	<b>( 49,958)</b>	<b>( 36,488)</b>	<b>70,006</b>	<b>( 18,393)</b>	<b>( 34,833)</b>
Net cash from (used in) operating activities .....	72,941	48,513	( 28,619)	27,043	119,878
Net cash (used in) from investing activities .....	( 53,592)	( 37,806)	( 9,228)	( 38,031)	( 138,657)
Net cash from financing activities .....	( 28,728)	( 124,642)	34,389	74,041	( 44,940)
Year 2018					
Operating income .....	267,624	398,901	545,193	298,800	1,510,518
Operating expenses					
excluding depreciation .....	( 285,835)	( 384,208)	( 430,200)	( 333,796)	( 1,434,039)
Operating (loss) profit bef. depr. (EBITDA) .....	( 18,211)	14,693	114,993	( 34,996)	76,479
Depreciation .....	( 28,002)	( 34,491)	( 36,698)	( 34,256)	( 133,447)
Operating (loss) profit (EBIT) .....	( 46,213)	( 19,798)	78,295	( 69,252)	( 56,968)
Net finance income (expense) .....	1,408	( 11,975)	( 1,575)	( 452)	( 12,594)
Share of profit (loss) of associates .....	1,266	293	213	( 20)	1,752
(Loss) profit before income tax .....	( 43,539)	( 31,480)	76,933	( 69,724)	( 67,810)
Income tax .....	9,011	5,752	( 14,904)	12,381	12,240
<b>(Loss) profit</b> .....	<b>( 34,528)</b>	<b>( 25,728)</b>	<b>62,029</b>	<b>( 57,343)</b>	<b>( 55,570)</b>
Other comprehensive profit (loss) .....	7,583	611	( 16,329)	( 46,722)	( 54,857)
<b>Total comprehensive (loss) income</b> .....	<b>( 26,945)</b>	<b>( 25,117)</b>	<b>45,700</b>	<b>( 104,065)</b>	<b>( 110,427)</b>
Net cash from (used in) operating activities .....	67,115	60,062	( 50,635)	( 14,989)	61,553
Net cash used in investing activities .....	( 129,159)	( 60,861)	( 76,540)	136,627	( 129,933)
Net cash from financing activities .....	30,802	52,412	62,976	3,146	149,336

## Quarterly statements (unaudited), contd.:

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

	Q1	Q2	Q3	Q4	Total
Year 2019	As reported				
Operating income .....	248,602	402,767	533,943	319,183	1,504,495
Operating expenses					
excluding depreciation .....	( 263,270)	( 377,527)	( 401,302)	( 324,420)	( 1,366,519)
Operating (loss) profit bef. depr. (EBITDA) .....	( 14,668)	25,240	132,641	( 5,237)	137,976
Depreciation .....	( 44,911)	( 49,343)	( 51,574)	( 31,445)	( 177,273)
Operating (loss) profit (EBIT) .....	( 59,579)	( 24,103)	81,067	( 36,682)	( 39,297)
Net finance expense .....	( 9,294)	( 8,982)	( 4,150)	( 3,524)	( 25,950)
Share of profit (loss) of associates .....	405	( 7,420)	( 450)	111	( 7,354)
(Loss) profit before income tax .....	( 68,468)	( 40,505)	76,467	( 40,095)	( 72,601)
Income tax .....	13,355	6,239	( 15,007)	10,235	14,822
<b>(Loss) profit .....</b>	<b>( 55,113)</b>	<b>( 34,266)</b>	<b>61,460</b>	<b>( 29,860)</b>	<b>( 57,779)</b>
Other comprehensive profit (loss) .....	9,539	( 6,608)	8,546	11,469	22,946
<b>Total comprehensive (loss) income .....</b>	<b>( 45,574)</b>	<b>( 40,874)</b>	<b>70,006</b>	<b>( 18,391)</b>	<b>( 34,833)</b>
Net cash from (used in) operating activities .....	72,941	48,513	( 28,619)	27,043	119,878
Net cash (used in) from investing activities .....	( 53,592)	( 37,806)	( 9,228)	( 38,031)	( 138,657)
Net cash (used in) from financing activities .....	( 28,728)	( 124,642)	34,389	74,041	( 44,940)



