ICELANDAIR

Consolidated Financial Statements for the year 2023

Icelandair Group hf. • Reykjavíkurflugvöllur • 102 Reykjavík, Iceland • Reg. No. 631205-1780

Contents

Endorsement and Statement by the Board of Directors and the CEO

Icelandair Group hf. is an Icelandic aviation company with decades' long history of operating in the international airline sector. The Icelandair Route Network is the heart of the business model which takes advantage of the unique geographical location of Iceland serving as a connecting hub between Europe and North America. Icelandair Group is the parent company of several subsidiaries, that in addition to Icelandair include most notably Icelandair Cargo and the aircraft leasing brand Loftleidir Icelandic. The Company's strategic initiatives support its vision of “Bringing the spirit of Iceland to the world” and its mission of offering smooth and enjoyable journeys to, from, via and within Iceland – the Company's hub and home.

The Consolidated Financial Statements of Icelandair Group hf. for the year 2023 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional Icelandic disclosure requirements. The Financial Statements comprise the Consolidated Financial Statements of Icelandair Group hf. (the "Company") and its subsidiaries (together the “Group”) and have been audited by KPMG.

Operations in the year 2023

According to the Consolidated Income Statement, profit for the year 2023 amounted to USD 11.2 million. Equity at year end amounted to USD 288.3 million, including share capital in the amount of USD 311 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.

Icelandair reached an important milestone in 2023 by turning a profit after taxes for the first time since 2017. Profit amounted to USD 11 million, a turnaround from a loss of USD 6 million last year. Revenue generation was strong during the year, with strong demand in all markets especially North America to Iceland, resulting in record unit revenues (RASK). Total revenue was USD 1.5 billion up by 20% from 2022. EBIT amounted to USD 21 million, up by USD 2 million, with an EBIT ratio of 1.4%. The results are considered acceptable given market conditions, external challenges, and cost increases. Following a very strong third quarter, the fourth quarter started off well. However, the seismic activity in Southwest Iceland in November, with the consequent global media coverage, weakened demand and, thereby, revenue generation. In addition, the impact of labor actions by air traffic controllers in Iceland and a volcanic eruption in December was significant. Furthermore, the capacity increase in the Company’s key markets inevitably puts pressure on unit revenue. The results in the fourth quarter were, therefore, below expectations and impacted the results for the full year.

Icelandair transported 4.3 million passengers in 2023, 17% more than the year before. The number of passengers in the via market to Iceland increased the most, by 22%, and accounted for 41% of total passengers.

Cargo markets were challenging in 2023, and various actions have been taken to improve the cargo operation, which resulted in improved results in the last quarter of the year. Operating profit is expected in 2024, compared to a considerable operating loss in 2023. The leasing business continued to perform well with good results in 2023 and the outlook for 2024 is good. One aircraft will be added on lease to the Company's largest customer in the spring which, after the addition, will lease five aircraft from the Company. The Company's world tours are going well, and the number of such projects will increase in 2024.

Icelandair signed an agreement with Airbus in 2023 for the purchase of 13 Airbus A321XLR aircraft with purchase rights for an additional 12 aircraft. Delivery will commence in 2029. Icelandair further concluded long-term leases for seven new A321LR aircraft, with the scheduled delivery of the first four in winter 2024/2025 and the remaining three in winter 2025/2026. Preparations for the implementation of the aircraft have begun. The addition of the Airbus aircraft into the fleet will increase the flexibility of the route network and create opportunities for future growth, as well as further support the Company's sustainable development goals.

Icelandair employed an average of 3,638 full-time employees in 2023, 19% more than in 2022.

Equity amounted to USD 288 million, with an equity ratio of 19% at the end of the year. The liquidity position remained strong, with cash and marketable securities amounting to USD 271 million. Additionally, the Company had undrawn committed credit lines of USD 52 million, bringing total liquidity to USD 323 million.

The prospects for Icelandair’s operations for 2024 are favorable although the first part of the year, especially the first quarter, will remain challenging due to the above-mentioned factors. The flight schedule in the passenger network will be Icelandair’s largest ever, with 57 destinations, thereof three new. A total of 42 aircraft will be used in the passenger network in the summer of 2024. The Company expects to deliver better results in 2024, both in terms of EBIT and after-tax profit.

The Company had an accumulated deficit at year-end, accordingly the Board of Directors proposes no dividend payment to shareholders for the year 2023.

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

Share capital and Articles of Association

The nominal value of Icelandair Group's issued share capital at year-end was ISK 41.1 billion. The share capital is divided into an equal number of shares with a nominal value of one ISK each. The shares are listed on the Main Market of the Nasdaq Iceland stock exchange under the ticker symbol ICEAIR in a single class bearing equal rights. The Company has entered various agreements that include "Change of control" clauses which might be triggered if any person or group of persons acting in convert gains direct or indirect control of the Company and/or if the Company's shares cease to be listed on a stock exchange.

According to the Icelandic Company's Act, companies can acquire and hold up to 10% of the nominal value of issued shares. On 9 March 2023 the Annual General Meeting authorized the set-up of a formal buy-back program in accordance with the provisions of Article 5 of MAR (Regulation (EU) No 596/2014 of the European Parliament and of the Council), which has been transposed into Icelandic legislation with Act No 60/2021, as well as the provisions of the Commission Delegated Regulation (EU) 2016/1052 which contains regulatory technical standards for the conditions applicable to buy-back programs. Under the program the Company was authorized to purchase up to 10% of its own shares in accordance with Article 55 of the Icelandic Companies Act No 2/1995 during a period of 18 months following the Annual General Meeting. No buy-back of shares was undertaken in 2023 and the Company held no treasury shares at year-end.

The Annual General Meeting further authorized an incremental share capital increase of up to ISK 900,000,000 nominal value that may only be utilized to fulfil terms under stock option agreements granted pursuant to the Company's Share-Based Incentive Program. Existing shareholders will not have pre-emptive subscription rights to shares issued pursuant to this provision. Share price and subscriptions shall be in accordance with the Share Based Incentive Program and stock option agreements entered pursuant to that. The authorization is valid until 31 December 2027. In April 2023, a total of 393,300,000 stock options were granted based on the program. See note 27.

The Company's Board of Directors comprises five members, two women and three men. The gender ratio is thus in accordance with Icelandic laws requiring companies with over 50 employees to ensure that the Board has representation from both genders and that each gender comprises at least 40% of the Board Members when Board Members surpass three. The Board Members are elected at the Annual General Meeting each for a term of one year. Those persons willing to stand for election must give formal notice thereof to the Board of Directors and Icelandair Group's Nomination Committee 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 passed if it is approved by at least 2/3 of votes cast as well as by shareholders controlling at least 2/3 of the share capital represented at the respective shareholders' meeting.

The number of shareholders at year-end 2023 was 14,404 a decrease of 1,492 during the year. At 31 December 2023 the 10 largest shareholders were:

Name	Shares in ISK thousand	Shares in %
Blue Issuer Designated Activity Company	7,073,868	17.20
Gildi - lífeyrissjóður	1,945,179	4.73
Lífeyrissjóður starfsmanna ríkisins A-deild	1,257,604	3.06
Brú Lífeyrissjóður starfsmanna sveitarfélaga	1,213,222	2.95
Arion banki hf.	1,048,802	2.55
Almenni lífeyrissjóðurinn	998,984	2.43
Íslandsbanki hf.	767,342	1.87
Landsbréf - Úrvalsbréf hs.	743,558	1.81
Sólvöllur ehf.	663,704	1.61
Birta lífeyrissjóður	642,849	1.56
	16,355,113	39.77
Other shareholders	24,765,134	60.23
	41,120,247	100.00

Further information on matters related to share capital is disclosed in note 27. Additional information on shareholders is provided on the Company's website www.icelandairgroup.com.

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

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 highly ethical business practices.

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 that form an appendix to 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. Information regarding operational risk management is disclosed in the Operational Risk appendix.

Non-Financial Reporting

According to the Icelandic Financial Statements Act, the Company has compiled a thorough overview of non-financial information. This includes key areas of sustainability according to the ESG Reporting Guide – Environment, Society and Governance - issued by Nasdaq.

The company has previously identified material issues relating to the ESG framework that are monitored during the year and Icelandair supports the United Nations' Sustainable Development Goals (SDGs).

The Company's policies, material issues, goals and progress in key focus areas are further discussed in the Non-financial Reporting that form an appendix to the Consolidated Financial Statements.

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements for the year ended 31 December 2023 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.

In our opinion, the Consolidated Financial Statements of Icelandair Group hf. for the year 2023 identified as "549300UMI5MBLZSXGL15-2023-12-31-en.zip" are in all material respects prepared in compliance with the ESEF Regulation.

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 2023, its assets, liabilities and consolidated financial position as at 31 December 2023 and its consolidated cash flows for the year 2023.

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.

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

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

The Board of Directors and the CEO have today discussed the Consolidated Financial Statements of Icelandair Group hf. for the year 2023 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, 1 February 2024.

Board of Directors:

Guðmundur Hafsteinsson, Chairman of the Board

Nina Jonsson

John F. Thomas

Matthew Evans

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 31 December, 2023, 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 31 December, 2023, 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.

Our opinion is consistent with the additional report submitted to the Audit Committee and the Board of Directors.

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 Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We declare, to the best of our knowledge and belief, that we have not provided any prohibited non-audit services, as referred to in Article 5(1) of the Regulation (EU) 537/2014 and that we remained independent in conducting the audit.

We were appointed auditors of Icelandair Group hf. when it was founded in 2005. We have been re-appointed by resolutions passed by the annual general meeting uninterrupted since then.

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.

Independent Auditor's Report, contd.:

Key Audit Matters	How the matter was addressed in the audit
Timing and accuracy of revenue recognition of passenger income *Reference is made to note 7 "Operating income" and 33 "Deferred income".* 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 recognised as revenue. Large volumes of transactions flow through various IT systems from the date of sale until revenue is recognized in the consolidated income statement. The recording process is complex and highly automated which gives rise to a 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.	Our audit procedures were designed to challenge the timing and accuracy of passenger revenue recognition. These procedures include: • Inspecting third-party Service Organisation Control reports to determine whether General IT controls over certain passenger revenue systems operated effectively during the year. • Testing a sample of key controls in the revenue accounting process. • Testing all manual journal entires posted in passenger revenue accounts. • Testing inputs and challenging key assumptions in the Prepaid income obligation and re-performing calculations of the obligation. • Checking that the methodology applied to prepaid income and expired tickets was consistent to prior years and, if the methodology has changed, assessed the appropriateness • Tested reconciliation between the revenue accounting system and the financial system. • Tested year-end credit card receivables and trade receivables to cash received post year-end. • We assessed the appropriateness of passenger revenue recognition by selecting a sample of coupons to ensure that the coupons were recognized as revenue on the date of flight and at the correct amount. We also tested the inclusion of passenger revenue transactions in the appropriate period by testing selected flights before and after the the reporting date. • We used data analytics to correlate the transactions in passenger revenue accounts to confirm appropriate counter postings to prepaid revenues, accounts receivables, cash and other accounts as applicable.
Key Audit Matters	**How the matter was addressed in the audit**
Provision for scheduled aircraft engine maintenance of leased engines and amortization of owned engines. *Reference is made to note 13 "Operating assets" and note 31 "Non-current payables".* The Group operates aircraft engines which are owned or held under lease arrangements. For own engines the maintenance cost is capitalized and expensed over the estimated useful life of the engine until it needs to undergo maintenence. Maintenance provision for leased engines is estimated by performing calculations which are based on estimated cost of maintenance and an estimated timetable of required checks. These aspects require significant judgements by Management when evaluating estimated aircraft engine utilisation hours, expected maintenance intervals and future maintenance costs which has led us to consider this area as one of the most relevant aspects of the audit.	We read new purchase and lease agreements for engines in the year 2023 and evaluated if accounting for new engines was appropriate and initial recognition is in line with agreements. We assessed the appropriateness of management's key assumptions which included assessing the estimated cost of overhaul, estimated future utilisation and expected maintenance intervals. We selected a sample of additions during the year and inspected relevant invoices. We recalculated the estimated provision for leased engines and amortization for owned engines as well as confirming usage of each engine during the year. Assessed whether past estimates have been historically accurate by comparing budgeted and actual cost of the most recent maintenance of engines.

Independent Auditor's Report, contd.:

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.

Responsibilities of the Board of Directors and 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, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditor's 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 an 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 Auditor's Report, contd.:

Auditor's 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 consolidated 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

Report on European single electronic format (ESEF Regulation)

As part of our audit of the consolidated financial statements of Icelandair Group hf. we performed procedures to be able to issue an opinion on whether the consolidated financial statements of Icelandair Group hf. for the year 2023 with the file name “549300UMI5MBLZSXGL15-2023-12-31-en.zip” is prepared, in all material respects, in compliance with the Act on disclosure obligation of issuers of securities and the obligation to flag no. 20/2021 relating to requirements regarding European single electronic format Regulation EU 2019/815 which include requirements related to the preparation of the consolidated financial statements in XHTML format and iXBRL markup.

Board of Directors and CEO are responsible for preparing the consolidated financial statements in compliance with the Act on disclosure obligation of issuers of securities and the obligation to flag no. 20/2021. This includes preparing the consolidated financial statements in an XHTML format in accordance with EU Regulation 2019/815 on the European single electronic format (ESEF Regulation).

Our responsibility is to obtain reasonable assurance, based on evidence that we have obtained, on whether the consolidated financial statements is prepared in all material respects, in compliance with the ESEF Regulation, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirement set out in the ESEF Regulation, whether due to fraud or error.

In our opinion, the consolidated financial statements of Icelandair Group hf. for the year 2023 with the file name “549300UMI5MBLZSXGL15-2023-12-31-en.zip” is prepared, in all material respects, in compliance with the ESEF Regulation.

Report on the report of the Board of Directors and CEO

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 report of the Board of Directors and 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 Hjördís Ýr Ólafsdóttir.

Reykjavík, 1 February 2024.

KPMG ehf.

Hjördís Ýr Ólafsdóttir

Matthías Þ. Óskarsson

Consolidated Income Statement and other Comprehensive Income for the year 2023

	Notes	2023	2022
Operating income			
Passenger revenue	7	1,289,927	1,047,557
Cargo revenue		88,261	90,851
Leasing revenue		71,317	58,510
Other Operating revenue	7	74,064	68,200
		1,523,569	1,265,118
Operating expenses			
Salaries and salary-related expenses		391,564	308,591
Aircraft fuel		371,321	374,490
Other aviation expenses		264,547	196,140
Other Operating expenses		339,673	248,171
	8	1,367,105	1,127,392
Operating profit before depreciation and amortization (EBITDA)		156,464	137,726
Depreciation and amortization	10	(135,477)	(118,875)
Operating profit (EBIT)		20,987	18,851
Finance income		27,308	8,846
Finance cost		(40,962)	(32,595)
Fair value changes		0	(580)
Net finance cost	11	(13,654)	(24,329)
Gain on sale of associate/subsidiary	12	1,381	3,807
Share of (loss) gain of associates	20	(925)	1,850
Profit before tax (EBT)		7,789	179
Income tax	22	3,380	(5,998)
Profit (loss) for the year		11,169	(5,819)
Other comprehensive income (loss)			
Items that are or may be reclassified to profit or loss			
Currency translation differences		5,847	(10,154)
Net profit (loss) on hedge of investment, net of tax	34	2,104	(3,898)
Cash flow hedges - effective portion of changes in fair value, net of tax	34	(5,194)	(20,025)
Cash flow hedges - reclassified to profit or loss		721	19,751
Other comprehensive income (loss) for the year		3,478	(14,326)
Total comprehensive profit (loss) for the year		14,647	(20,145)
Owners of the Company		10,726	(8,461)
Non-controlling interests		443	2,642
Profit (loss) for the year		11,169	(5,819)
Total Comprehensive profit (loss) attributable to:			
Owners of the Company		14,204	(23,260)
Non-controlling interests		443	3,115
Total comprehensive profit (loss) for the year		14,647	(20,145)
Earnings per share:			
Basic earnings per share in US cent	28	0.03	(0.02)
Diluted earnings per share in US cent	28	0.03	(0.02)

* Cargo revenue has been restated from Passenger and Other Operating revenue as a new line item in the Consolidated Income Statement. Aircraft fuel cost has been restated from Other aviation expenses as a new line item in the Consolidated Income Statement.

The notes on pages 15 to 48 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Icelandair Group hf. 2023 11 Amounts are in thousands

Consolidated Statement of Financial Position as at 31 December 2023

	Notes	2023	2022
Assets:			
Operating assets	13,16	555,110	505,588
Right-of-use assets	17	348,520	318,971
Intangible assets and goodwill	18,19	55,377	55,202
Investments in associates	20	8,395	11,903
Receivables and deposits	21	43,469	17,668
Deferred tax assets	22	59,728	55,593
Non-current assets		1,070,599	964,925
Inventories	23	23,841	22,491
Derivatives used for hedging	34	791	2,029
Trade and other receivables	25	161,923	155,317
Marketable securities	24	71,008	42,159
Cash and cash equivalents	26	199,514	224,252
Current assets		457,077	446,248
Total assets		1,527,676	1,411,173
Equity:			
Share capital		310,973	310,973
Reserves		20,112	19,450
Accumulated deficit		(44,015)	(57,914)
Equity attributable to equity holders of the Company	27	287,070	272,509
Non-controlling interests		1,277	877
Total equity		288,347	273,386
Liabilities:			
Loans and borrowings	29	207,390	207,264
Lease liabilities	30	332,167	296,692
Payables	31	53,952	33,947
Non-current liabilities		593,509	537,903
Loans and borrowings	29	44,940	48,453
Lease liabilities	30	54,083	45,463
Derivatives used for hedging	34	6,598	820
Trade and other payables	32	222,414	201,789
Deferred income	33	317,785	303,359
Current liabilities		645,820	599,884
Total liabilities		1,239,329	1,137,787
Total equity and liabilities		1,527,676	1,411,173

The notes on pages 15 to 48 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Icelandair Group hf. 2023 12 Amounts are in thousands

ICELANDAIR GROUP

Consolidated Statement of Changes in Equity
for the year 2023

	Share capital	Share premium	Hedging	Translation reserve	Other reserves	Accumulated deficit	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the Company								
			Reserves						
2022									
Equity 1 January 2022	272,204	34,178	92	4,970	19,054	(105,876)	224,622	(2,238)	222,384
Shares issued	38,769	13,617					52,386		52,386
Warrants exercised						18,761	18,761		18,761
Loss for the year						(8,461)	(8,461)	2,642	(5,819)
Currency translation differences				(10,627)			(10,627)	473	(10,154)
Net loss on hedge of investment, net of tax				(3,898)			(3,898)		(3,898)
Effective portion of changes in fair value of cash flow hedges, net of tax			(20,025)				(20,025)		(20,025)
Cash flow hedges, reclassified to profit or loss			19,751				19,751		19,751
Effects of profit or loss of subsidiaries and associates					10,133	(10,133)	0		0
Transfer of share premium		(47,795)				47,795	0		0
Equity 31 December 2022	310,973	0	(182)	(9,555)	29,187	(57,914)	272,509	877	273,386
2023									
Equity 1 January 2023	310,973	0	(182)	(9,555)	29,187	(57,914)	272,509	877	273,386
Profit for the year						10,726	10,726	443	11,169
Currency translation differences				5,847			5,847		5,847
Net profit on hedge of investment, net of tax				2,104			2,104		2,104
Effective portion of changes in fair value of cash flow hedges, net of tax			(5,194)				(5,194)		(5,194)
Cash flow hedges, reclassified to profit or loss			721				721		721
Divestment of Non-controlling interest								(43)	(43)
Stock options						357	357		357
Effects of profit or loss of subsidiaries and associates					(2,816)	2,816	0		0
Equity 31 December 2023	310,973	0	(4,655)	(1,604)	26,371	(44,015)	287,070	1,277	288,347

The notes on pages 15 to 48 are an integral part of these Consolidated Financial Statements.

Consolidated Financial Statements of Icelandair Group hf. 2023 13 Amounts are in thousands

Consolidated Statement of Cash Flows
for the year 2023

	Notes	2023	2022
Cash flows from operating activities:			
Profit (loss) for the year		11,169	(5,819)
Adjustments for:			
Depreciation and amortization	10	135,477	118,875
Expensed deferred cost		27,560	19,210
Net finance cost	11	13,654	23,749
Changes in fair value		0	580
Gain on sale of operating assets		(701)	(2,223)
Gain on sale of a subsidiary/associate	12	(1,381)	(3,807)
Share in loss (profit) of associates	20	925	(1,850)
Income tax	22	(3,380)	5,998
		183,323	154,713
Changes in:			
Inventories	23	(131)	3,020
Trade and other receivables	25	12,326	(37,968)
Trade and other payables	32	26,451	47,060
Deferred income		14,319	44,203
Cash generated from (used in) operating activities		52,965	56,315
Interest received		18,646	4,428
Interest paid		(39,813)	(24,837)
Net cash from (used in) operating activities		215,121	190,619
Cash flows from (to) investing activities:			
Acquisition of operating assets	13	(133,849)	(311,556)
Proceeds from sale of operating assets		967	112,218
Acquisition of intangible assets	18	(634)	(422)
Deferred cost, change		(10,264)	(2,530)
Proceeds from sale of a subsidiary	12	4,182	0
Proceeds from sale of (investment in) associates		3,075	(717)
Non-current receivables, change		(18,331)	7,928
Marketable securities, change		(28,849)	16,038
Net cash from (used in) investing activities		(183,703)	(179,041)
Cash flows from financing activities:			
Shares issued	27	0	52,386
Proceeds from loans and borrowings	29	63,461	42,002
Repayment of loans and borrowings	29	(70,293)	(47,799)
Repayment of lease liabilities	30	(49,788)	(37,518)
Net cash from (used in) financing activities		(56,620)	9,071
Change in cash and cash equivalents		(25,202)	20,649
Effect of exchange rate fluctuations on cash held		464	(1,164)
Cash and cash equivalents at beginning of the year		224,252	204,767
Cash and cash equivalents at 31 December	26	199,514	224,252
Marketable securities		71,008	42,159
Cash, cash equivalents and marketable securities at 31 December		270,522	266,411

The notes on pages 15 to 48 are an integral part of these Consolidated Financial Statements.

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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 Reykjavíkurflugvöllur in Reykjavík, Iceland. The Consolidated Financial Statements for the Company as at and for the year ended 31 December 2023 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 industry. The Company is listed on the Nasdaq Main Market Iceland, www.nasdaqomxnordic.com. The Group´s website address is www.icelandairgroup.com.

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 1 February 2024.

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.

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 recognized prospectively.

Assumptions and estimation uncertainties

Information on assumptions and estimation uncertainties that have a risk of resulting in a material adjustment in the year ending 31 December 2023 is included in the following notes:

Note 19 - Impairment test
Note 33 - Deferred income
Note 35 - Financial instruments and fair value

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

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

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

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.

4. Use of estimates and judgements, contd.:
Measurement of fair values, contd.:

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 recognizes 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 35 – Financial Instruments and fair value

5. Changes in accounting policies
A number of new standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these Consolidated Financial Statements and they are not considered to have significant impact on the Consolidated Financial Statements.

6. Operating segments
The Group's operations are identified and reported as one operating segment. Geographic disaggregation of revenue is based on point of sale.

Geographic segments for the year 2023

	North America	Europe	Iceland	Other	Total
Passenger revenue	739,055	317,671	205,592	27,609	1,289,927
Cargo revenue	5,875	37,478	44,907	0	88,261
Lease revenue	25,965	1,825	4,789	38,739	71,317
Other Operating revenue	2,559	3,401	68,088	16	74,064
Total revenue	773,454	360,375	323,376	66,364	1,523,569
Total revenue %	51%	24%	21%	4%	100%

Geographic segments for year 2022

	North America	Europe	Iceland	Other	Restated Total
Passenger revenue	545,242	290,255	193,361	18,699	1,047,557
Cargo revenue	3,821	29,480	57,550	0	90,851
Lease revenue	14,830	5,339	3,937	34,404	58,510
Other Operating revenue	20,838	34,294	12,514	554	68,200
Total revenue	584,731	359,368	267,362	53,657	1,265,118
Total revenue %	46%	29%	21%	4%	100%

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7. Operating income

Passenger revenue is specified as follows:	2023	*Restated 2022
Passenger revenue	1,204,063	975,332
Ancillary revenue	85,864	72,225
Total Passenger revenue	1,289,927	1,047,557
Other Operating revenue is specified as follows:		
Revenue from tourism	39,424	31,064
Sale at airports	7,333	7,713
Aircraft handling	7,051	6,704
Gain on sale of operating assets	701	2,228
Other Operating revenue	19,555	20,491
Total Other Operating revenue	74,064	68,200

* Cargo revenue has been restated from Passenger and Other Operating revenue as a new line item in the Consolidated Income Statement.

8. Operating expenses

Salaries and salary-related expenses are specified as follows:	2023	*Restated 2022
Salaries	303,680	238,591
Contributions to pension funds	48,881	38,106
Other salary-related expenses	39,003	31,894
Total salaries and salary-related expenses	391,564	308,591
Average number of full time equivalents	3,638	3,045
Full time equivalents at period end	3,542	3,023
Gender ratio for employees (male / female)	54/46	54/46
Aircraft fuel is specified as follows:		
Aircraft fuel	345,272	378,809
Emission charges	23,272	15,112
Fuel hedges	2,777	(19,431)
Total Aircraft fuel cost	371,321	374,490
Other aviation expenses is specified as follows:		
Aircraft and engine lease	12,380	3,620
Aircraft handling, landing and navigation	153,770	115,392
Aircraft maintenance expenses	98,397	77,128
Total Other aviation expenses	264,547	196,140
Other Operating expenses are specified as follows:		
Travel and other employee expenses	68,114	48,919
Tourism expenses	29,532	17,877
IT expenses	33,839	26,599
Advertising	25,243	24,458
Booking fees and commission expenses	66,157	50,796
Cost of goods sold	5,772	6,021
Customer services	60,303	45,457
Operating cost of real estate and fixtures	9,692	8,606
Allowance for bad debt	1,262	(9,790)
Other Operating expenses	39,759	29,228
Total Other Operating expenses	339,673	248,171

* Aircraft fuel cost is specified separately as it has been restated from Other aviation expenses as a new line item in the Consolidated Income Statement. Aircraft and engine lease is specified seperately as it has been restated from Aircraft maintenance expenses as a new line item in the Other aviation expenses note.

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9. Auditor's fee

Auditor's fee are specified as follows:	Group auditors 2023	Group auditors 2022	Other auditors 2023	Other auditors 2022
Audit	435	427	48	41
Other services	85	59	0	0
	520	486	48	41

10. Depreciation and amortization

The depreciation and amortization charge in profit or loss is specified as follows:	2023	2022
Depreciation of operating assets, see note 13	84,665	80,145
Depreciation of right-of-use assets, see note 17	50,353	37,930
Amortization of intangible assets, see note 18	459	800
Depreciation and amortization recognized in profit or loss	135,477	118,875

11. Finance income and (finance cost)

Finance income and (finance cost) are specified as follows:	2023	2022
Interest income on cash and cash equivalents and marketable securities	23,409	6,090
Interest income on lease receivables	225	260
Other interest income	3,674	2,496
Finance income total	27,308	8,846
Interest expenses on loans and borrowings	(18,942)	(11,495)
Interest on lease liabilities	(18,715)	(13,619)
Other interest expenses	(3,047)	(1,987)
Net currency exchange loss	(258)	(5,494)
Finance cost total	(40,962)	(32,595)
Changes in fair value of warrants	0	(580)
Net finance income and (finance cost)	(13,654)	(24,329)

12. Gain on sale of subsidiary

In December 2021 Icelandair Group finalized the sale of Iceland Travel. Part of the sales price was subject to certain performance metrics for 2022 that were fully realized. Revenue in the amount of USD 1.4 million was realized in Q2 2023 related to the sale of the subsidiary.

13. Operating assets

Operating assets are specified as follows:	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Cost				
Balance at 1 January 2022	704,052	89,021	87,409	880,482
Additions	294,228	10,489	6,839	311,556
Sales and disposals	(115,626)	0	(194)	(115,820)
Effects of movements in exchange rates	0	(7,850)	(245)	(8,095)
Balance at 31 December 2022	882,654	91,660	93,809	1,068,123
Additions	112,343	12,443	9,063	133,849
Sales and disposals	(45,905)	(270)	(17,672)	(63,847)
Effects of movements in exchange rates	354	4,267	156	4,777
Balance at 31 December 2023	949,446	108,100	85,356	1,142,902

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13. Operating assets, contd.:

Depreciation and impairment	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Balance at 1 January 2022	418,907	24,722	45,560	489,189
Depreciation	69,946	3,209	6,990	80,145
Sales and disposals	(4,392)	0	(121)	(4,513)
Effects of movements in exchange rates	0	(2,179)	(107)	(2,286)
Balance at 31 December 2022	484,461	25,752	52,322	562,535
Depreciation	73,693	3,308	7,664	84,665
Sales and disposals	(43,946)	(270)	(16,648)	(60,864)
Effects of movements in exchange rates	153	1,187	116	1,456
Balance at 31 December 2023	514,361	29,977	43,454	587,792
Carrying amounts				
At 1 January 2022	285,145	64,299	41,849	391,293
At 31 December 2022	398,193	65,908	41,487	505,588
At 31 December 2023	435,085	78,123	41,902	555,110
Depreciation ratios	4-20%	2-6%	5-33%	

Acquisition of operating assets in 2023 amounted to USD 133.8 million (2022: USD 311.6 million) therof overhaul of own engines and aircraft spare parts in the amount of USD 89.8 million (2022: USD 102.2 million).

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 239.3 million at year-end 2023 (2022: USD 236.5 million). The Group owns 33 aircraft including 16 Boeing 757, four Boeing 767, five Boeing 737 MAX, one Boeing 737-800, three Bombardier Q200 and four Bombardier Q400. At year-end, 14 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	
	2023	2022	2023	2022
Boeing - 26 / 26 aircraft	654,797	650,797	355,843	339,505
Other - 7 / 7 aircraft	65,000	54,330	31,456	33,003
Flight equipment	105,732	82,956	47,786	25,685
Total aircraft and flight equipment	825,529	788,083	435,085	398,193

16. Insurance value of buildings and other operating assets

The principal buildings owned by the Group are the following:

2023	Maintenance hangars	Staff apartments	Office buildings	Other buildings	Under construction	Total
Official assessment value	41,201	8,190	21,857	17,316	0	88,564
Insurance value	86,705	17,991	63,616	29,019	12,020	209,351
Carrying amounts	21,576	3,831	24,970	5,987	21,759	78,123
Square meters	31,814	6,813	19,199	12,124	0	69,950

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16. Insurance value of buildings and other operating assets, contd.:

2022	Maintenance hangers	Staff apartments	Office buildings	Other buildings	Under construction	Total
Official assessment value	37,896	6,417	13,440	14,112	0	71,865
Insurance value	80,450	16,441	44,544	41,788	3,509	186,732
Carrying amounts	21,848	3,876	13,071	17,820	9,293	65,908
Square meters	31,814	6,813	13,262	17,916	0	69,805

Official valuation of the Group's leased land for buildings at 31 December 2023 amounted to USD 16.7 million (2022: USD 14.7 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 52.5 million at year-end 2023 (2022: USD 58.3 million). The carrying amount at the same time was USD 41.5 million (2022: USD 41.5 million).

17. Right of use assets

Right of use assets are specified as follows:

	Aircraft	Land & Real Estate	Other	Total
Balance at 1 January 2022	215,568	8,947	279	224,794
Adjustments	(43)	(89)	(164)	(296)
Adjustments for indexed leases	9,494	762	47	10,303
New or renewed leases	119,850	1,666	936	122,452
Depreciation	(35,438)	(2,151)	(341)	(37,930)
Currency translation adjustment	26	(377)	(1)	(352)
Balance at 31 December 2022	309,457	8,758	756	318,971
Adjustments	(238)	0	(10)	(248)
Adjustments for indexed leases	7,061	625	60	7,746
New or renewed leases	70,076	1,814	471	72,361
Depreciation	(47,313)	(2,552)	(488)	(50,353)
Currency translation adjustment	0	43	0	43
Balance at 31 December 2023	339,043	8,688	789	348,520

18. Intangible assets and goodwill

Intangible assets and goodwill are specified as follows:

Cost	Goodwill	Trademarks and slots	Other intangibles	Total
Balance at 1 January 2022	55,728	34,565	6,493	96,786
Additions	0	0	422	422
Disposals	0	0	(70)	(70)
Effects of movements in exchange rates	0	0	(7)	(7)
Balance at 31 December 2022	55,728	34,565	6,838	97,131
Additions	0	0	634	634
Disposals	0	0	(5,095)	(5,095)
Balance at 31 December 2023	55,728	34,565	2,377	92,670

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18. Intangible assets and goodwill, contd.:

Amortization and impairment losses	Goodwill	Trademarks and slots	Other intangibles	Total
Balance at 1 January 2022	33,308	2,605	5,259	41,172
Amortization	0	0	800	800
Disposals	0	0	(37)	(37)
Effects of movements in exchange rates	0	0	(6)	(6)
Balance at 31 December 2022	33,308	2,605	6,016	41,929
Amortization	0	0	459	459
Disposals	0	0	(5,095)	(5,095)
Balance at 31 December 2023	33,308	2,605	1,380	37,293
Carrying amounts				
At 1 January 2022	22,420	31,960	1,234	55,614
At 31 December 2022	22,420	31,960	822	55,202
At 31 December 2023	22,420	31,960	997	55,377

19. Impairment test

Goodwill and other intangible assets that have indefinite life are tested for impairment annually and additionally at each reporting date if there is an indication of impairment.

These assets were recognized at fair value on their acquisition dates. Goodwill and other intangible assets with indefinite life are specified as follows:

	2023	2022
Goodwill	22,420	22,420
Trademarks and airport slots	31,960	31,960
Total	54,380	54,380

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 generating unit (CGU) are as follows:

	Goodwill		Trademarks and slots	
	2023	2022	2023	2022
Passenger and cargo operations	0	0	31,960	31,960
Other Group entities	22,420	22,420	0	0
Total	22,420	22,420	31,960	31,960

The recoverable amounts of cash-generating units was based on their value in use and was determined by discounting the future cash flows generated from the continuing use of the CGU. Icelandair prepared a 5-year high level financial plan based on long-term targets that Icelandair has set regarding profitability and growth. 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. There are still some uncertainties that the Group's operations face such as economic uncertainty in Europe, inflationary pressures in our main markets and salary developement in Iceland and increasing emissions cost. A weighted USA and EU CPI forecast from IMF was used as a base for inflationary increases. The renewal of aircraft in the fleet will have a positive effect on some cost items.

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19. Impairment test, contd.:

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

2023	**Passenger and cargo operations**	**Other Group entities ***
Long-term growth rate	2.5%	2.5%
Revenue growth:		
Weighted average 2023/2022	14.7%	21.5%
2023- 2028	8.3%	9.9%
Forecasted EBIT growth 2024-2028	54.6%	-2.2%
WACC	10.0%	13.6%
Debt leverage	67.1%	68.1%
Pre-tax interest rate for debt	6.7%	6.9%
2022		
Long-term growth rate	2.5%	2.5%
Revenue growth:		
Weighted average 2022/2021	117.4%	44.1%
2022- 2027	10.7%	10.3%
Forecasted EBIT growth 2023-2027	27.2%	3.7%
WACC	10.3%	13.6%
Debt leverage	62.6%	64.8%
Pre-tax interest rate for debt	6.6%	6.9%

* Weighted average of underlying CGU.

The recoverable amounts of the cash-generating units at year-end were estimated to be higher than carrying amounts and no impairment was required. Reasonable change in main assumptions would not lead to impairment.

20. Investment in associates

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

		2023		**2022**	
	Ownership	**Carrying amount**	**Share of profit/loss in associates**	**Carrying amount**	**Share of profit/loss in associates**
EBK ehf.	25%	1,190	157	1,154	233
ÍTF 1 slhf.	29%	7,029	534	9,009	1,757
Lindarvatn ehf.	50%	0	(1,618)	1,566	(1,381)
Other investments		176	2	174	1,241
Total investments in associates		8,395	(925)	11,903	1,850

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

Landsbréf – Icelandic Tourism Fund I slhf. (ÍTF1 slhf.) is a fund managed by Landsbréf. The Fund's purpose was to invest in Icelandic companies focusing on entertainment and leisure activities for foreign tourists, with focus on projects that have full-year operational potential. The original lifespan of the Fund was until year-end 2023 which has been extended by one year, until year-end 2024. The Fund can be extended once more for a period of one year. The aim of the Fund is to return proceeds from its investments to shareholders as soon as they are realized.

Lindarvatn ehf. is the owner of a property at Thorvaldsensstræti in downtown Reykjavík and other properties located near Austurvöllur which have been rebuilt as a hotel which was opened in December 2022.

Icelandair Group finalized the sale of its holdings in Icelandair Hotels (now rebranded as Berjaya Iceland Hotel Collection) in 2020. In its capacity as then parent the Company had issued guarantees in relation to rental obligations for the hotel company. These guarantees have all but one been relinquished which is subject to legal dispute before the Icelandic Supreme Court. Pending the outcome the Company holds USD 1 million of the gain of the sale in reserve. The ruling is expected to be handed down in 1H 2024.

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21. 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:	2023	2022
Loans, effective interest rate 11.7% / 6%	1,977	42
Lease receivable, interest rate 5%	15,687	5,763
Security deposits	20,786	18,047
Prepayments on aircraft purchases	11,138	0
	49,588	23,852
Current maturities	(6,119)	(6,184)
Non-current receivables and deposits total	43,469	17,668
Contractual repayments mature as follows:		
Maturities in 2023	-	6,184
Maturities in 2024	6,119	3,193
Maturities in 2025	3,485	564
Maturities in 2026	3,495	543
Maturities in 2027	3,544	530
Maturities in 2028	3,568	793
Subsequent	29,377	12,045
Total non-current receivables and deposits, including current maturities	49,588	23,852

Non-current receivables and deposits denominated in currencies other than the functional currency comprise USD 3.4 million (2022: USD 2.7 million).

22. Income taxes

(i) Amounts recognized in profit or loss

Deferred tax expense	2023	2022
Origination and reversal of temporary differences	1,112	(748)
Exchange rate difference	(4,492)	6,746
Total tax expense recognized in profit or loss	(3,380)	5,998

(ii) Amounts recognized in other comprehensive income

	2023	2022
Effective portion of changes in fair value of cash flow hedge	(1,124)	(68)
Exchange rate difference	526	(975)
Total tax recognized in other comprehensive income	(598)	(1,043)

(iii) Reconciliation of effective tax rate

	2023		2022	
Profit before tax		7,789		179
Income tax according to current tax rate	20.0%	1,558	20.1%	36
Non-deductible expenses	(1.8%)	(139)	27.4%	49
Warrants	0.0%	0	64.8%	116
Gain on sale of a subsidiary/associate	(3.5%)	(276)	(425.1%)	(761)
Share of loss of associates	2.4%	185	(206.7%)	(370)
Exchange rate difference - tax loss carry-forwards	(41.6%)	(3,237)	3,905.6%	6,991
Exchange rate difference - other	(16.1%)	(1,255)	(136.9%)	(245)
Other items	(2.8%)	(216)	101.7%	182
Effective tax rate	(43.4%)	(3,380)	3,350.8%	5,998

(iv) Recognized deferred tax asset

Deferred tax assets are specified as follows:	2023	2022
Deferred tax assets 1 January	55,593	60,647
Deferred tax recognized in profit or loss	3,380	(5,998)
Income tax recognized in other comprehensive income	598	1,043
Exchange rate difference	157	(99)
Deferred tax assets 31 December	59,728	55,593

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22. Income taxes, contd.:

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

	Assets		Liabilities		Net	
	2023	2022	2023	2022	2023	2022
Operating assets	0	0	(30,753)	(27,114)	(30,753)	(27,114)
Intangible assets	0	0	(70)	(58)	(70)	(58)
Derivatives	1,170	46	0	0	1,170	46
Trade receivables	1,425	336	0	0	1,425	336
Right-of-use assets	0	0	(91,472)	(85,816)	(91,472)	(85,816)
Lease claim	0	0	(12,979)	(6,971)	(12,979)	(6,971)
Lease liabilities	108,360	94,155	0	0	108,360	94,155
Tax loss carry-forwards	84,152	78,556	0	0	84,152	78,556
Other items	0	2,459	(105)	0	(105)	2,459
Total	195,107	175,552	(135,379)	(119,959)	59,728	55,593

(vi) Movements in deferred tax balance during the year

2023	1 January	Recognized in profit or loss	Exchange rate difference	Recognized in other comprehensive income and equity	31 December
Operating assets	(27,114)	(3,580)	(59)		(30,753)
Intangible assets	(58)	(12)			(70)
Derivatives	46			1,124	1,170
Trade receivables	336	1,088	1		1,425
Right-of-use assets	(85,816)	(5,655)	(1)		(91,472)
Lease claim	(6,971)	(6,008)			(12,979)
Lease liabilities	94,155	14,204	1		108,360
Tax loss carry-forwards	78,556	5,500	96		84,152
Other items	2,459	(2,157)	119	(526)	(105)
Total	55,593	3,380	157	598	59,728

2022	1 January	Recognized in profit or loss	Exchange rate difference	Recognized in other comprehensive income and equity	31 December
Operating assets	(29,102)	1,825	163		(54,228)
Intangible assets	(87)	29			(116)
Derivatives	(22)			68	92
Trade receivables	2,513	(2,178)	1		672
Right-of-use assets	(67,465)	(18,355)	4		(171,632)
Lease claim	(2,516)	(4,455)			(13,942)
Lease liabilities	71,528	22,631	(4)		188,310
Tax loss carry-forwards	85,738	(6,196)	(986)		157,112
Other items	60	701	723	975	2,459
	60,647	(5,998)	(99)	1,043	108,727

Tax loss carry-forwards are specified as follows:	2023	2022
Tax loss from 2018 expire 2028	92,449	90,552
Tax loss from 2019 expire 2029	44,349	42,435
Tax loss from 2020 expire 2030	178,706	170,994
Tax loss from 2021 expire 2031	88,866	85,031
Tax loss from 2022 expire 2032	0	3,770
Tax loss from 2023 expire 2033	16,390	0
Tax loss carry-forwards total	420,760	392,782

Based on a five-year forecast and taking into a account the reversal of existing temporary differences, the Group expects to utilize its carry forward tax loss.

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23. Inventories

Inventories are specified as follows:	2023	2022
Spare parts	20,292	18,826
Other inventories	3,549	3,665
Inventories total	23,841	22,491

24. Marketable securities

At year-end marketable securities amounted to USD 71 million (2022: USD 42.2 million). The increase is due to a stronger cash position and increased allocation of funds to this asset class given relatively high yields on locally issued commercial papers. Marketable securities consist of term deposits, government, bank and corporate bonds and bills, and unit shares in local mutual funds that are valued at their year-end market price. No restrictions apply to the securities' redemption.

25. Trade and other receivables

Trade and other receivables are specified as follows:	2023	2022
Trade receivables	56,203	67,505
Prepayments	28,323	21,486
Restricted cash	37,013	30,796
Lease receivables	3,000	3,537
Receivables due from related parties	22,718	18,345
Current maturities of non-current receivables and deposits	6,119	6,184
Other receivables	8,547	7,464
Trade and other receivables total	161,923	155,317

At year-end trade receivables are presented net of an allowance for doubtful accounts of USD 6.9 million (2022: USD 6.3 million).

Prepayment and prepaid expenses which relate to subsequent periods amounted to USD 28.3 million (2022: USD 21.5 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 card acquirers, derivatives, airport operators 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

Cash and cash equivalents are specified as follows:	2023	2022
Securities and fixed term bank deposits	63,455	34,875
Bank deposits	136,059	189,377
Cash and cash equivalents total	199,514	224,252

27. Equity

Share capital

The Company's share capital amounts to ISK 41,120,247 thousand according to its Articles of Association. Each share carries one vote at shareholders' meetings. The shares are freely transferable unless otherwise stipulated by law. All shareholders hold equal rights to dividend payments as declared from time to time.

The Company held no treasury shares at year-end 2023.

Share premium

Share premium represents excess of payment above the 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.

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.

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27. Equity, contd.:

Reserves, contd.:

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 Statements Act, companies must retain, in a separate equity account, recognized share in profit of subsidiaries and associates in excess of dividend received or declared.

Stock options

In April 2023, the Company's Executive Committee and other employees at Director level were granted rights to purchase a total of up to 393,300,000 shares through Stock Options agreements. The Stock Options issue price is 1.97 per share and shall accrue 3% annual interest as well as be adjusted for any future dividend decided after the issue date. The Company's cost of the Stock Option Program is estimated to be around USD 1.7 million over the next three years based on the Black-Scholes model.

Dividend

No dividend was paid to shareholders in 2023 and 2022.

The Board of Directors proposes no dividend payment to shareholders in 2024 for the year 2023 as it is not permitted by law due to accumulated deficit at year-end.

For the longer term the dividend policy is as follows: “The Company's goal is to declare 20-40% of annual net profit as dividend. The final decision on dividend payments will be based on the financial position of the Company, operating capital requirements and market conditions.”

28. Earnings per share

Earnings per share is calculated by dividing net profit or loss attributable to equity holders of the Parent Company by the weighted average number of outstanding shares during the year. The calculation of diluted earnings per share is the same as basic earnings per share as no convertible notes or significant stock options, apart from warrants already exercised, have been issued.

Basic earnings per share:

	2023	2022
Profit (loss) for the year attributable to equity holders of the parent company	10,726	(8,461)
Weighted average number of shares for the year	41,120,247	38,807,390
Basic earnings per share in US cent per share	0.03	(0.02)
Diluted earnings per share in US cent per share	0.03	(0.02)

29. Loans and borrowings

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

	Non-current interest bearing debt	Total
Total interest-bearing debt 1 January 2022	257,785	257,785
Proceeds from loans and borrowings	42,422	42,422
Transaction cost of long-term loans and borrowings	(420)	(420)
Repayment of borrowings	(47,799)	(47,799)
Cash flows related to financing activities	(5,797)	(5,797)
Proceeds from other payables	8,923	8,923
Accrued interest added to the loans	791	791
Financing activities without cash flows	9,714	9,714
Currency exchange difference	(6,517)	(6,517)
Expensed borrowing cost recognized in finance cost	532	532
Other liability related changes	(5,985)	(5,985)
Total interest-bearing debt 1 January 2023	255,717	255,717

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29. Loan and borrowings, contd.:

	Non-current interest bearing debt	Total
Proceeds from loans and borrowings	67,080	67,080
Transaction cost of long-term loans and borrowings	(3,619)	(3,619)
Repayment of borrowings	(70,293)	(70,293)
Cash flows related to financing activities	(6,832)	(6,832)
Accrued interest added to the loans	404	404
Financing activities without cash flows	404	404
Currency exchange difference	2,169	2,169
Expensed borrowing cost recognized in effective interests	872	872
Other liability related changes	3,041	3,041
Total interest-bearing debt 31 December 2023	252,330	252,330

Loans and borrowings are specified as follows:

Non-current loans and borrowings:	2023	2022
Secured bank loans	239,335	236,516
Unsecured loans	12,995	19,201
Total loans and borrowings	252,330	255,717
Current maturities	(44,940)	(48,453)
Total non-current loans and borrowings	207,390	207,264
Current loans and borrowings:		
Current maturities of non-current liabilities	44,940	48,453
Total current loans and borrowings	44,940	48,453
Total loans and borrowings	252,330	255,717

Terms and debt repayment schedule:

	Currency	Nominal interest rates year	Year of maturity	Total remaining balance 2023	2022
Secured bank loans	USD	7.0%	2024-2034	199,589	190,677
Secured bank loans	EUR	4.2%	2028	39,746	45,839
Unsecured loans	ISK	4.4%	2026-2030	12,995	19,201
Total interest bearing liabilities				252,330	255,717

Included in Unsecured loans are deferred payroll tax payments that formed a part of general government measures in 2020 and 2021 to mitigate the negative effects of COVID-19. The loans carry zero interest and are measured at net present value. The deferred payments granted in 2020 are payable in monthly installments over a 48-month period from July 2022 – June 2026. Payments deferred in 2021 due in January 2022 were extended to six installments from September 2022 to February 2023.

The Company has two committed credit lines in place with local banks in the total amount of USD 52 million. The lines were undrawn at year-end 2023.

Repayments of loans and borrowings are specified as follows:	2023	2022
Repayments in 2023	-	48,453
Repayments in 2024	44,940	58,501
Repayments in 2025	41,542	36,985
Repayments in 2026	38,372	27,852
Repayments in 2027	21,124	15,096
Repayments in 2028	54,999	48,709
Subsequent repayments	51,353	20,121
Total loans and borrowings	252,330	255,717

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29. Loan and borrowings, contd.:

As part of its financial restructuring in 2020 the Group signed deferral agreements with all major lenders. The deferral agreements included renegotiated financial covenants of long-term loan agreements. In 2023 concessions affecting two loans remained in place which reduced the minimum equity ratios from 20% to between 10%-12,5% in 2023 and 10-18% for the year 2024.

30. Lease liabilities

This note provides information of the Group's lease liabilities, which are measured at amortized 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:	2023	2022
Balance at 1 January	342,155	245,659
Adjustments	(262)	(2,701)
Adjustments for indexed leases	7,801	10,458
New or renewed leases	85,961	127,108
Payment of lease liabilities	(68,574)	(50,533)
Interest of lease liabilities	18,786	13,015
Currency translation adjustment	383	(851)
Balance at 31 December	386,250	342,155
Current maturities	(54,083)	(45,463)
Total non-current lease liabilities	332,167	296,692

	Average Rate	Aircraft	Land & Real Estate	Other	Total
Lease liabilities in USD	4.93%	376,441	49	40	376,530
Lease liabilities in ISK, indexed	5.12%	0	7,676	739	8,415
Lease liabilities in GBP	2.20%	0	437	0	437
Lease liabilities in other currency	6.22%	0	840	28	868
Total lease liabilities		376,441	9,002	807	386,250

Maturity analysis	2023	2022
Repayments in 2023	-	45,463
Repayments in 2024	54,083	42,890
Repayments in 2025	52,432	41,541
Repayments in 2026	52,287	41,024
Repayments in 2027	48,474	37,550
Repayments in 2028	43,100	33,879
Subsequent repayments	135,874	99,808
Total lease liabilities	386,250	342,155

Further lease commitments are in place for three B737 MAX 8 aircraft and seven A321LR aircraft (thereof three after the reporting period) scheduled for delivery to the Route network as demonstrated in the table below. Furthermore, a lease agreement has been signed for one B737-800 aircraft scheduled for delivery to Leasing in Q1 2024. That B737-800 aircraft will be subleased to a long-term leasing customer. The total lease liability for these eleven aircraft is estimated to be around USD 339 million.

	Q1 2024	Q4 2024	Q1 2025	Q4 2025	Q1 2026	Total
B737-800	1					1
B737 MAX 8	3					3
A321LR		2	2	2	1	7
Total	4	2	2	2	1	11

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 2024. Non-current obligations are specified as follows:

	2023	2022
Non-current payables	64,360	44,568
Current portion, classified in trade and other payables	(10,408)	(10,621)
Total non-current payables	53,952	33,947

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31. Non-current payables, contd.:

Non-current payables are scheduled to be repaid as follows:

Repayments in 2023	-	10,621
Repayments in 2024	10,408	3,932
Repayments in 2025	9,897	8,142
Repayments in 2026	2,788	316
Repayments in 2027	2,604	1,762
Repayments in 2028	12,164	7,471
Subsequent	26,499	12,324
Total non-current payables, including current maturities	64,360	44,568

32. Trade and other payables

Trade and other payables are specified as follows:

	2023	2022
Trade payables	55,085	54,388
Current portion of engine overhauls and security deposits from lease contracts	10,408	10,621
Other payables	156,921	136,780
Total trade and other payables	222,414	201,789

33. Deferred income

Sold unused tickets, fair value of unredeemed frequent flyer points and other prepayments are presented as deferred income in the Consolidated Statement of Financial Position.

Deferred income is specified as follows:

	2023	2022
Sold unused tickets and vouchers	272,481	253,425
Frequent flyer points	22,137	18,977
Other prepayments	23,167	30,957
Total deferred income	317,785	303,359

The amount allocated to sold unused tickets and vouchers is the book value of fares and fuel surcharges that the Group has collected and is liable for to passengers. Thereof sold tickets with future travel dates amounted to USD 247.1 million (2022: USD 212.3 million) and vouchers amounted to USD 25.4 million (2022: USD 41.1 million). When issued the vouchers are generally valid for 3 years. The validity of covid-related vouchers has been extended by an additional two years from the date of original issuance.

The amount allocated to frequent flyer points is estimated by reference to the fair value of the discounted services for which they could be redeemed, since the fair value of the points themselves is not directly observable. The fair value of the discounted services for which the points, granted through a customer loyalty program, can be redeemed takes into account the expected redemption rate and the timing of such expected redemptions. That amount is recognized as deferred income.

Other prepayments concist mainly of prepayments for packages and charter flights.

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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 Group'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 analyze 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 maintain 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. In addition to the formal oversight performed by the Audit Committee, the Company has in place internal audit processes which act to monitor management controls and procedures, the results of which are reported to the Audit Committee.

a. 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 cash and cash equivalents, which are kept with local and international banks with acceptable credit ratings, marketable securities which consist of bonds and bills issued by Government treasuries, high rated banks and financially strong corporates, as well as receivables from customers.

Exposure to credit risk

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

		Carrying amount	
	Note	2023	2022
Non-current receivables and deposits	21	43,469	17,668
Trade and other receivables	25	133,600	133,831
Derivatives used for hedging	34	791	2,029
Marketable securities	24	71,008	42,159
Cash and cash equivalents	26	199,514	224,252
		448,382	419,939

Trade and other receivables and market securities

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of customers and counterparties.

Credit risk is linked to trade receivables, agreements with financial institutions related to hedging and counterparties in marketable securities. The relative spread of trade receivables across counterparties is crucial for credit risk exposure. The Group is aware of potential losses related to credit risk exposure and chooses its counterparties subject to business experience and securities issuers subject to credit ratings and financial strength.

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 components that relate 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.

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34. Financial risk management, contd.:

a. Credit risk, contd.:

At year-end 2023, the maximum exposure to credit risk for trade and other receivables and marketable securities by type of financial instrument was as follows:

	2023	2022
Credit cards	25,661	40,718
Trade receivables	30,542	26,787
	56,203	67,505
Marketable securities	71,008	42,159
Other receivables	105,720	87,812
Trade and other receivables, see note 25	232,931	197,476

Impairment losses

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

	Gross 2023	Allowance for impairment 2023	Gross 2022	Allowance for impairment 2022
Not past due	48,883	(517)	61,133	(404)
Past due 1-30 days	3,442	(276)	4,002	(474)
Past due 31-120 days	4,157	(1,043)	1,008	(520)
Past due 121-365 days	2,334	(1,088)	3,345	(853)
More than one year	4,305	(3,994)	4,336	(4,068)
Total	63,121	(6,918)	73,824	(6,319)

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

	2023	2022
Balance at 1 January	6,319	17,642
Impairment loss allowance, increase (decrease)	1,262	(9,790)
Amounts written off	(426)	(1,872)
Exchange rate difference	(237)	339
Balance at 31 December	6,918	6,319

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

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

Guarantees

The Group's policy is to provide financial guarantees only to wholly owned subsidiaries. However, as part of the sales process of Icelandair Hotels the Group remained a joint guarantor for agreements already in place at the date of sale which have now all but one been relinquished. The remaining guarantee is subject to legal dispute before the Icelandic Supreme Court. If the Supreme Court overrules the Court of Appeal's ruling the amount collectable from Icelandair Group is capped at approximately USD 740,000 including interest. The ruling is expected to be handed down in 1H of 2024. See note 20.

b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities, settled by delivering cash or another financial asset at their due date. 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 marketable securities equal to the estimated amount of three months' average fixed operating cost, where 30% can be in the form of undrawn lines of credit. At year-end the Group's cash and cash equivalents amounted to USD 200 million, and USD 71 million of marketable securities with trusted counterparties, totaling USD 271 million.

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34. Financial risk management, contd.:

b. Liquidity risk, contd.:

The Group's management monitors its cash flow requirements by using a rolling forecast. Liquidity is managed based on projected cash flows in different currencies.

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

31 December 2023	Carrying amount	Contractual cash flows	Within 12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Unsecured bank loans	12,995	13,954	5,269	4,888	3,326	471
Secured loans	239,335	289,014	57,535	46,088	126,877	58,514
Guarantees	1,004	1,004	1,004	0	0	0
Lease liability	386,250	472,232	75,017	71,281	182,172	143,762
Payables and prepayments ...	276,366	286,774	232,822	9,897	5,392	38,663
	915,950	1,062,978	371,647	132,154	317,767	241,410
Derivative financial liabilities						
Commodity derivatives	(6,343)	(6,892)	(6,639)	(253)	0	0
Margin accounts	0	0	0	0	0	0
Forward exchange contracts .	(255)	2,778	2,778	0	0	0
- Outflow	(108,795)	(111,476)	(111,476)	0	0	0
- Inflow	108,540	114,254	114,254	0	0	0
Interest rate swaps	791	791	136	473	182	0
	(5,807)	(3,323)	(3,725)	220	182	0

31 December 2022	Carrying amount	Contractual cash flows	Within 12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Unsecured bank loans	19,201	21,409	8,368	4,709	8,333	0
Secured loans	236,516	277,802	57,174	63,162	82,105	75,361
Guarantees	961	961	961			
Lease liability	342,155	487,626	73,687	66,704	167,429	179,806
Payables and prepayments ...	235,736	235,736	201,789	3,932	10,220	19,795
	834,569	1,023,534	341,978	138,507	268,087	274,962
Derivative financial liabilities						
Commodity derivatives	(1,315)	1,882	1,882	0	0	0
Margin accounts	1,510	1,510	1,510	0	0	0
Forward exchange contracts .	(820)	(359)	(359)	0	0	0
- Outflow	(53,938)	(54,770)	(54,770)	0	0	0
- Inflow	53,117	54,410	54,410	0	0	0
Interest rate swaps	1,834	1,989	793	601	576	19
	1,209	5,022	3,826	601	576	19

Undrawn secured credit lines at year-end 2023 amounted to USD 52.0 million (2022: USD 52.0 million).

c. 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 in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns. The Company holds some of its financial assets in term deposits, government bonds and rated banks as well as short-term bills issued by financially strong local corporates. These investments fall within the agreed risk management policy.

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.

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34. Financial risk management, contd.:

c. Market risk, contd.:

Carbon risk

Icelandair is required to procure three types of emission allowances in relation to its operations: European Carbon Emission Allowance Futures (EUAs), UK Allowances (UKAs) and Swiss General Unit Allowance (CHUAs). Carbon emission is calculated in a fixed proportion to the fuel consumption of flights operated to and from the European continent. Icelandair mitigates risk associated with carbon emission allowances through opportunistic monthly spot purchases of allowances to mirror the net shortfall of allowances taking into consideration the Company's free allowances.

The prices of all types of allowances have risen substantially in recent years making procurement of emission allowances a significant and growing cost item. As carbon emission is directly related to the Company's fuel consumption the associated costs significantly rose year-on-year following a powerful ramp-up of production from June 2022 onwards. Icelandair enjoys a free allowance of ETS units which covered approx. 40% of the Company's total emission allowance needs in 2023. In 2023 the EU announced a plan to accelerate the amortization rate of the 2010 free allowance allocated to airlines. Thus, airlines will be more dependent on carbon trading in near future which will bring the consequential added costs and volatility of procurement to their production earlier and at a faster pace than planned.

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 price fall. The Group strategy is to hedge between 20% and 50% of estimated fuel consumption 6 months forward, 0-40% 7-12 months forward and 0-20% 13-18 months forward.

The hedging policy allows for both swaps and options traded with approved counterparties and within approved limits.

Sensitivity analysis

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

	Effect on equity	
	2023	**2022**
Increase in fuel prices by 10%	8,822	2,559
Decrease in fuel prices by 10%	(8,822)	(2,559)

At year-end 2023 all open hedge postions were effective. Changes in their market value are therefore confined to equity until settlement.

Currency risk

The Group is exposed to risk associated with cash flow and balance sheet items that are denominated in currencies other than the functional currencies of Group entities.

The Group seeks to reduce the risk arising from such a currency mismatch in the cash flow by netting receivables and payments in each individual currency and by internal trading within the Group. The shortfall of ISK is financed by a surplus of European and American currencies. A relatively high level of ISK is kept on the Balance Sheet to counter Balance Sheet currency mismatch, but further to serve the purpose as a reserve holding for ISK payments. Lastly the ISK has a nature of being a high interest currency which benefits yield returns on those assets.

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34. Financial risk management, contd.:

c. Market risk, contd.:

Exposure to currency risk

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

2023	ISK	EUR	GBP	DKK	NOK/SEK	CAD
Receivables / payables, net ...	(27,944)	(3,836)	(6,922)	(745)	(1,798)	(1,348)
Marketable securities	71,008	0	0	0	0	0
Cash and cash equivalents ...	37,869	10,999	6,826	931	5,622	8,258
Secured bank loans	0	(39,729)	0	0	0	0
Unsecured loans	(3,867)	0	0	0	0	0
Lease receivables	0	0	224	0	0	0
Lease liabilities	(111,357)	(132)	(438)	(151)	0	0
Forward exchange contracts .	110,644	(16,577)	(19,103)	(12,602)	(16,361)	(21,986)
Net statement of financial exposure	76,353	(49,275)	(19,413)	(12,567)	(12,537)	(15,076)
Tax carrying forward	84,152	0	0	0	0	0
Long-term Subordinated loan	70,330	0	0	0	0	0
Net statement of financial position	230,835	(49,275)	(19,413)	(12,567)	(12,537)	(15,076)
Next 12 months forecast sales	234,274	213,696	88,644	25,327	52,237	85,478
Next 12 months forecast purchases	(545,140)	(168,340)	(22,173)	(10,544)	(4,780)	(13,075)
Capex thereof	(32,000)	0	0	0	0	0
Currency exposure	(80,031)	(3,919)	47,058	2,216	34,920	57,327

2022	ISK	EUR	GBP	DKK	NOK/SEK	CAD
Receivables / payables, net ...	(24,263)	2,278	(3,264)	(640)	(1,748)	(1,010)
Marketable securities	42,159	0	0	0	0	0
Cash and cash equivalents ...	78,615	23,163	7,460	11,324	12,381	10,717
Secured bank loans	0	(45,806)	0	0	0	0
Unsecured loans	(19,201)	0	0	0	0	0
Lease receivables	3,253	0	335	0	0	0
Lease liabilities	(108,627)	(355)	(645)	(226)	0	0
Forward exchange contracts .	54,411	(10,666)	(12,029)	(6,454)	(11,833)	(11,788)
Net statement of financial exposure	26,347	(31,386)	(8,143)	4,004	(1,200)	(2,081)
Tax carrying forward	78,556	0	0	0	0	0
Long-term Subordinated loan	59,762	0	0	0	0	0
Net statement of financial position	164,665	(31,386)	(8,143)	4,004	(1,200)	(2,081)
Next 12 months forecast sales	229,357	182,341	70,275	36,692	54,603	54,727
Next 12 months forecast purchases	(447,962)	(137,294)	(16,852)	(8,013)	(3,632)	(9,937)
Capex thereof	(28,989)	(902)	0	0	0	0
Currency exposure	(53,940)	13,661	45,280	32,683	49,771	42,709

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

	Average rate 2023	Average rate 2022	Year-end spot rate 2023	Year-end spot rate 2022
ISK	0.0072	0.0074	0.0073	0.0070
EUR	1.08	1.05	1.11	1.07
GBP	1.24	1.23	1.27	1.20
CAD	0.74	0.77	0.76	0.74
DKK	0.15	0.14	0.15	0.14
SEK	0.09	0.10	0.10	0.10

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34. Financial risk management, contd.:

c. Market risk, contd.:

Currency risk, contd:

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 and omits the impact of deferred tax assets at the reporting date.

2023	**Directly in equity**	**Profit or loss**	**Total effect on equity**
ISK	(8,852)	2,743	(6,108)
EUR	1,326	2,616	3,942
GBP	1,528	25	1,553
DKK	1,008	(3)	1,005
NOK/SEK	1,309	(306)	1,003
CAD	1,759	(553)	1,206
2022			
ISK	(4,353)	2,245	(2,108)
EUR	853	1,658	2,511
GBP	962	(311)	651
DKK	516	(837)	(320)
NOK/SEK	947	(851)	96
CAD	943	(777)	166

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

Interest rate risk is the potential that a change in market interest rates will reduce the value of a bond or other fixed rate instruments. The fair value of a fixed rate instrument and the cash flow of a variable rate instruments will 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 loans with up to a 5-year horizon.

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

Fixed rate instruments	**Amount**	
	2023	**2022**
Commodity derivatives and forward exchange contracts (Carrying amount)	(6,885)	(2,569)
Interest rate swaps (Notional amount)	(20,556)	(38,730)
	(27,441)	(41,299)
Variable rate instruments		
Financial assets (Carrying amount)	270,522	266,028
Financial liabilities (Carrying amount)	(252,330)	(255,717)
	18,192	10,311

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 exchange rates, remain constant.

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34. Financial risk management, contd.:

c. Market risk, contd.:

Interest rate risk, contd.:

31 December 2023	100 bp increase	100 bp decrease
Commodity derivatives and forward exchange contracts	44	(44)
Interest rate swaps	484	(503)
Fair value sensitivity (net)	527	(548)

31 December 2022		
Commodity derivatives and forward exchange contracts	16	(17)
Interest rate swaps	1,209	(1,271)
Fair value sensitivity (net)	1,225	(1,288)

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.

31 December 2023	100 bp increase	100 bp decrease
Variable rate instruments	146	(146)
Cash flow sensitivity (net)	146	(146)

31 December 2022		
Variable rate instruments	82	(82)
Cash flow sensitivity (net)	82	(82)

Hedge accounting

The Hedge Accounting Standards of IFRS 9 require hedge instruments to fulfill certain criteria so that the market value of open hedge positions can be allocated to equity as hedge reserves until settlement day. One of these qualifications is the requirement of effectiveness of the financial instrument against the identified exposure. The exposure in terms of cash flows has to be considered highly likely on the basis of a robust forecast of operations. All outstanding fuel hedge contracts are effective.

Following table shows effective and ineffective hedges:

31 December 2023	1-6 months	7-12 months	> 13 months	Total
Fuel	(3,246)	(2,515)	(582)	(6,343)
Currency	507	(762)	0	(255)
Interest rate swap	182	136	473	791
Total derivatives	(2,557)	(3,141)	(109)	(5,807)
Tax	511	624	17	1,152
Derivatives used for hedging, Equity	(2,046)	(2,517)	(92)	(4,655)

Climate risk

Climate change poses a financial risk to airlines. The potential for new regulations and taxes aimed at reducing carbon emissions, as well as the increasing costs associated with transitioning to low-carbon fuels, can have a material impact on the Company's financial performance. Climate-related physical risks, such as extreme weather events, also have the potential to disrupt operations and damage infrastructure. Additionally, the industry in general faces reputational risks as consumers become more conscious of the environmental impact of their travel choices. To mitigate these financial risks, Icelandair has implemented strategies to reduce carbon emissions.

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35. Financial instruments and fair value

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

	Carrying amount 2023	Fair value 2023	Carrying amount 2022	Fair value 2022
Derivatives used for hedging	(5,807)	(5,807)	1,209	1,209
Unsecured bond issue	(12,995)	(12,285)	(19,201)	(18,008)
Secured loans	(239,335)	(249,713)	(236,516)	(234,488)
Lease liabilities	(386,250)	(386,250)	(342,155)	(342,155)
Total	(644,387)	(654,055)	(596,663)	(593,442)

Fair value hierarchy

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

31 December 2023

Financial assets	Level 1	Level 2	Level 3	Total
Derivatives used for hedging		791		791
	0	791	0	791
Financial liabilities				
Unsecured bond issue			(12,285)	(12,285)
Secured loans			(249,713)	(249,713)
Lease liabilities			(386,250)	(386,250)
Derivatives used for hedging		(6,598)		(6,598)
	0	(6,598)	(648,248)	(654,846)

31 December 2022

Financial assets	Level 1	Level 2	Level 3	Total
Derivatives used for hedging		2,029		2,029
	0	2,029	0	2,029
Financial liabilities				
Unsecured bond issue			(18,008)	(18,008)
Secured loans			(234,488)	(234,488)
Lease liabilities			(342,155)	(342,155)
Derivatives used for hedging		(820)		(820)
	0	(820)	(594,651)	(595,471)

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

Non-derivative financial liabilities

Fair value, as determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at market rates as 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 valuating 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 value reflects the credit risk of the instrument and includes adjustments to take account of the credit risk of the Group entities and counterparties when appropriate.

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36. Capital commitments

On 6 July 2023, the Group finalized the purchase agreement for up to 25 A321XLR aircraft from Airbus. The order consists of 13 firm orders and purchase rights for up to 12 additional aircraft. The aircraft deliveries will commence in 2029. In addition the Group has also concluded long-term agreements for seven new A321LR aircraft, five with SMBC Aviation Capital Limited and two with CDB Aviation, (thereof three after the reporting period), scheduled for delivery to the Route network as demonstrated in the table in note 30.

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.

2023	Salaries and benefits	Pension contri-bution	Incentive payments for previous year	Number of shares held at year-end thousands *	Stock options held at year-end in thousands
Board of Directors:					
Guðmundur Hafsteinsson, Chairman	77.7	8.9		8,555	
Nina Jonsson, Vice Chairman	69.4	8.0			
John F Thomas	55.8	6.4		3,395	
Matthew Evans	42.8	4.9			
Svafa Grönfeldt	42.8	4.9		12,500	
Executive Committee:					
Bogi Nils Bogason Group CEO	424.9	101.6	49	23,625	22,100
Seven members of Executive Committee ..	1,871.8	346.1	228	32,574	81,700
Executive Committee (male / female)	5/3				

2022	Salaries and benefits	Pension contri-bution	Incentive payments for previous year	Number of shares held at year-end thousands *	Stock options held at year-end in thousands
Board of Directors:					
Guðmundur Hafsteinsson, Chairman	71.9	8.3		8,555	
Nina Jonsson, Vice Chairman	67.9	7.8			
John F Thomas	55.9	6.4		3,395	
Matthew Evans	39.9	4.6			
Svafa Grönfeldt	43.2	5.0		12,500	
Executive Committee:					
Bogi Nils Bogason Group CEO	433.1	107.5	65	23,625	
Eight members of Executive Committee	1,987.7	358.8	220	33,727	
Executive Committee (male / female)	6/3				

* Including financially related

At the Company's Annual General Meeting in 2022 it was approved to implement a share-based incentive program for the senior leadership team and other selected key employees. In 2023, 393,300,000 stock options were granted to a total of 51 employees based on the program.

Transactions with associates

The Group's purchases and sales to associates were immaterial for the year 2023. At year-end the Company held a long term receivable on its associate Lindarvatn in the amount of USD 22.7 million.

Transactions with shareholders

There are no shareholders with significant influence at the year-end 2023. Companies which members of the Board and Executive Committee members control have been identified as being thirteen. These companies have been identified as related. Transactions with them were immaterial in 2023.

38. Litigations and claims

The bankruptcy estate of Wow Air has initiated litigation against Icelandair and claimed compensation due to alleged predatory pricing in 2012-2016. It is claimed that Icelandair had a dominant position in the market for flights to and from Iceland during the period and abused its position by predatory pricing. Icelandair rejects the claim since the Company's management is of the opinion that Icelandair's pricing in 2012-2016 was fully compliant with the Icelandic Competition Act. Icelandair has already filed its counter-arguments in the case. The Icelandic Competition Authority has ceased its investigation of Icelandair's alleged predatory pricing in 2012-2016.

Icelandair ehf. has received compensation claims from cabin crew members for bodily injury due to alleged lack of air quality inside Icelandair's aircraft. Icelandair has rejected the claims since there is no evidence of lack of air quality in the Company's aircraft or any evidence linking such alleged lack of air quality to the bodily injury of claimants.

The Court of Appeal has ruled that Icelandair Group is jointly liable with Berjaya Iceland Hotels for lease payments of up to USD 1 million as a guarantor. The Court thus overruled the District Court of Reykjavík that had found that the guarantee was in solidum whereas the Court of Appeal found it to be a simple guarantee. The ruling has been appealed to the Supreme Court. The said amount may be claimed from Icelandair Group if the ruling of the Appeal Court will be overturned and Berjaya Iceland Hotels will also be unable to pay the amount. Icelandair has a provision on its Balance Sheet for a potential loss related to the claim, however the Company deems it unlikely that such loss will be realized, see note 20.

39. Group entities

The Company held the following significant subsidiaries at year-end 2023 which are all included in the Consolidated Financial Statements:

	Ownership interest 2023	2022
Passenger and cargo operations		
IceCap Insurance PCC Ltd.	100%	100%
Iceeignir ehf.	100%	100%
Icelandair ehf.	100%	100%
CAE Icelandair Flight Training ehf.	67%	67%
Flugfélag Íslands ehf.	100%	100%
Icelandair Cargo ehf.	100%	100%
FERIA ehf.	100%	100%
Loftleiðir - Icelandic ehf.	100%	100%

The subsidiaries further own seven minor operating companies that are also included in the Consolidated Financial Statements.

40. Ratios

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

	2023	2022
Current ratio	0.71	0.74
Equity ratio	0.19	0.19
Intrinsic value of share capital	0.93	0.88

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41. Investment and financing without cash flow effect

Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of the Group and should be excluded from the statements of cash flows. The exclusion of non-cash transactions from the statement of cash flows as these items do not involve cash flows in the current period.

Investment and financing without cash flow effect:		2023	2022
Acquisition of right-of-use assets	17	(72,361)	(122,452)
New or renewed leases	30	85,961	127,108
Gain on sale due to sales and leaseback		0	(1,153)
Non-current receivables		(13,600)	(3,503)
Loans and borrowings		0	8,923
Trade and other payables		0	(8,923)
Warrants issued		0	(18,761)
Retained earnings		0	18,761

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 derecognizes the assets and liabilities of the subsidiary, and any related NCI and other compnonents of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(ii) Investment 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 recognized 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.

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 amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized 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 recognized 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 recognized in other comprehensive income.

(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 recognized 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.

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42. Significant accounting policies, contd.:

b. Currency exchange, contd.:

(ii) Subsidiaries with other functional currencies, contd.:

Currency differences are recognized 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 recognized as revenue when transportation has been provided. Sold refundable documents not used within six months after expected transport are recognized as revenue. Non-refundable documents are recognized as revenue two months after expected transport if not used. Revenue from mail and cargo transportation is recognized 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 recognized only when the points are redeemed and the Group has fulfilled its obligations to provide the services. The amount of revenue recognized 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 recognized in profit or loss when the service has been provided and IFRS 16 Lease standard does not apply.

(iv) Other operating revenue

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

Gain on sale of operating assets is recognized 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 recognized 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 epensed when the related service is provided.

e. Leases

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 leases, if any and adjusted for certain remeasurements of the lease liability.

42. Significant accounting policies, contd.:

e. Leases, contd.:

(i) As a lessee, contd.:

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.

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

A sales and leaseback transaction is one where the Group sells and asset and immediately reacquires the use of the asset by entering into a lease agreement. Any profit from the sale is deferred and amortized over the lease term.

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

42. Significant accounting policies, contd.:

e. Leases, contd.:

(ii) As a lessor, contd.:

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 cost

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

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

g. Income tax

Income tax comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized 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 recognized 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.

42. Significant accounting policies, contd.:

i. Operating assets

(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 recognized 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 recognized in profit or loss as incurred.

k. Financial instruments

(i) Non-derivative financial assets

Trade receivables and debt securities are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized 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 derecognizes 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.

42. Significant accounting policies, contd.:

k. Financial instruments, contd.:

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 amortized cost.

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 recognized 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 amortized cost
A financial asset is measured at amortized 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. Financial assets

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

Financial assets measured at amortized 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 derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes 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 recognized 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.

(iii) 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 recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss. The Group holds no trading derivatives.

42. Significant accounting policies, contd.:

k. Financial instruments, contd.:

(iv) Derivative financial instruments and hedge accounting, 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 recognized 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 recognized 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 recognized 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 recognized. 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 recognized 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 recognized immediately in profit or loss. The amount recognized 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 recognized immediately in profit or loss.

Warrants are free standing financial instruments that are legally detachable and separately exercisable from the underlying shares. Pursuant to the requirements of IAS 32 Financial instruments: Presentation, the warrants are classified as financial liabilities because their exercise price is denominated in ISK, the Company's functional currency is USD and the Company did not offer the warrants pro rata to all of its existing shareholders. The outstanding warrants are recognized as warrant liabilities in the Consolidated Statement of Financial Position and are measured at their fair value on their issuing date and are subsequently measured at each reporting period with changes in fair value being recorded as a component of Change in fair value in the Consolidated Income Statement and other Comprehensive Income according to IFRS 13, Fair Value Measurement.

l. Share capital

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

Repurchase and reissue of share capital
When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized 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 recognized as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

42. Significant accounting policies, contd.:

m. 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.

(i) Non-derivative financial assets, contd.:

An impairment loss in respect of a financial asset measured at amortized 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 recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized. When an event occurring after the impairment recognized 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 recognized 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 recognized in profit or loss. Impairment losses recognized in respet 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 recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized 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 recognized.

42. Significant accounting policies, contd.:

n. Provisions

A provision is recognized 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.

o. 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.

p. Deferred tax asset

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.

q. 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.

r. Segment reporting

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

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

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

43. Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted. However, the Group has not early adopted the following 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.

- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants (Amendments to IAS 1)
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Lack of Exchangeability (Amendments to IAS 21)

Corporate Governance Statement

The framework

The Guidelines on Corporate Governance, 6th edition issued on 21 July 2021, by the Iceland Chamber of Commerce, Nasdaq Iceland, and the Confederation of Icelandic Employers, along with the Company's Articles of Association, the Rules for Issuers of securities listed on the Nasdaq Iceland and policies and procedures approved by the Board, make up the framework for Icelandair Group's, hereafter Icelandair, Corporate Governance practices. The Company's Articles of Association are accessible on the Company's website. The Guidelines on Corporate Governance are accessible on the website www.leidbeiningar.is and the guidelines and the Rules for Issuers are available on the website of Nasdaq Iceland.

Icelandair was in 2023 recognized for Excellence in Corporate Governance, an acknowledgement granted by the Icelandic Chamber of Commerce, Nasdaq Iceland, and the Confederation of Icelandic Employers. The acknowledgement certifies that the working practices of the Company's Board of Directors are well organized, and that the implementation of the Board's duties is exemplary. The recognition is based on an assessment of Icelandair's governance practices that are evaluated based on the Guidelines on Corporate Governance. Stjórnvísi (e. Excellence Iceland), the country's national body for quality management and performance improvement, is the coordinator of the recognition process.

In all main respects there are detailed rules of procedure in place, including for the Nomination Committee however a specific diversity policy has not been implemented in relation to the combination of the members of the Board of Directors. In its work, the Nomination Committee gives consideration to the combination of the Board in terms of education, professional background, gender, knowledge, experience, and skills. The Company has set itself a goal that the gender ratio of either men or women in management positions is never below 40%. The proportion of women in management positions in 2023 is 42%.

Composition and activities of the Board of Directors and sub-committees

	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Health & Safety Committee
Nr. of meetings in 2022	15	5	2	6	4
Guðmundur Hafsteinsson	x (Chairm.)		x (Chairm.)		
Nina Jonsson	x		x		x
Svafa Grönfeldt	x	x			
John F. Thomas	x	x			x (Chairm.)
Matthew Evans	x		x		
Ulfar Steindorsson				x	
Alexander Edvardsson		x (Chairm.)			
Hjorleifur Palsson				x (Chairm.)	
Helga Arnadottir				x	

Internal controls

Internal controls are applied at various levels to minimize the risk of fraud, abuse of funds and to achieve operational, reporting and compliance objectives. The management establishes appropriate internal control, with Board oversight, and holds individuals accountable for their responsibilities in the pursuit of objectives. Directors are responsible for identifying, assessing, and mitigating risks associated with the operations of their respective divisions and report on them to the Board. The Company has a Risk governance framework in place which includes a centralized enterprise risk platform that is coordinated by Risk Management and overseen by the Risk Committee. Icelandair has identified risks in the financial and accounting processes and selected and developed control activities to mitigate those risks.

Corporate Governance Statement, contd.:

Internal controls, contd.:

The oversight of compliance with the Company's risk management policies and procedures resides with the Board's Audit Committee. Enterprise risk is monitored through bi-annual risk assessments that are reported to the Board of Directors. Regular and ad hoc reviews of risk management controls and procedures are a part of the Company's working procedures, the results of which are reported to the Audit Committee. The Committee oversees the annual financial statements of the Company and the Group's consolidated financial statements including non-financial information as well as the Company's annual report. The Committee is responsible for the evaluation of the independence and the eligibility of both the Company's external 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 five meetings in 2023.

Audit Committee members:

Alexander Edvardsson, Chairman
John F. Thomas
Svafa Grönfeldt

Values, 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 employees through the Company's intranet, MyWork and on the Icelandair Group website.

Remuneration Committee

The purpose of the Remuneration Committee is to maintain oversight of the remuneration of the Executive Committee and senior management as well as to ensure that the structure of the remuneration components is aligned with the long-term interests of shareholders.

The main tasks of the Remuneration Committee are to prepare the decision-making process of the Board with regards to the Remuneration Policy, including the determination of any performance related variable compensation, and setting the terms and conditions for remuneration for the CEO and members of the Board. The Remuneration Committee is also assigned to regularly review the remuneration policy and ensuring its adherence.

The Remuneration Committee also oversees the overall long-term development of remuneration and human resource matters to ensure that all remuneration practices are in accordance with laws, regulations, and overall best practices. Furthermore, the Remuneration Committee seeks to formulate a point of view on any risks – operational, financial, or otherwise – and if and how they may affect the organization.

The Remuneration Committee inquiries about the results and outcomes of established human resource policies and procedures on a regular basis.

The objective of the Remuneration Policy is to make employment with Icelandair and its subsidiaries an attractive option for highly skilled employees and thereby secure the Company's position as a leading competitor in its field. Pursuant to said objective the Company must be able to offer competitive salaries and other variable forms of payment, such as short-term cash incentives and equity-related long-term incentives.

Icelandair has a short-term incentive program in place for the senior leadership team and for each year the Remuneration Committee approves the program.

The purpose of the program is to align the interests of the management and shareholders and mobilize the Company’s leadership to focus on the overall performance – both financial objectives and the execution of the Group's strategy. The program is designed to encourage the management to increase shareholder value and reward operational performance, proper management, and professional conduct. Performance outcomes are determined by a mixture of financial-, strategic-, and operational measures which take into account the participant's role. Performance pay-outs based on this short-term incentive program are annual and capped at 25% of annual base salary.

Any compensation to the management under the short-term incentive program is based on the sole discretion of the Remuneration Committee considering the factors above..

Corporate Governance Statement, contd.:

Remuneration Committee, contd.:

At the Company’s Annual General Meeting in 2022 it was approved to implement a share-based incentive program for the senior leadership team and other selected key employees. In 2023, 393,300,000 stock options were granted based on the program, thereof 123,700,000 to the Executive Committee.

General Salary Development

The international airline and aviation industry is very regulated and highly unionized and Icelandair's operations are no exception therefrom. This operational set-up means that typically about half of the workforce's terms and conditions of employment – corrected for seasonality – is governed by collective wage agreements with the other half operating under the law of supply and demand.

In terms of the local Icelandic general labor market industry pay developments in relation to the ground- and office staff is characterized by a complicated set up based on operational requirements of 24/7 operating functionality all year around.

CEO Remuneration

According to Icelandair’sRemuneration Policy, the remuneration package for the President and CEO is comprised of a fixed and variable salary component and needs to be competitive with other CEO's of publicly traded companies in the Icelandic stock market as well as other airlines in the same market. In addition, the terms of employment of the President and CEO shall take into account the financial and operating results of the Company from time to time.

As stated above, the variable remuneration of the President and CEO is an integral part of the overall Executive Committee remuneration policy which is linked to predetermined and quantifiable performance measures which are reviewed and approved by the Remuneration Committee and the Board each fiscal year. The Remuneration Committee typically reviews the President's and CEO's performance measures and makes a proposal to the Board of Directors for appropriate changes to reflect a strategic or tactical directional change for the Group from time to time.

Board of Directors Remuneration

According to Icelandair’s Remuneration Policy, remuneration for the members of the Board of Directors and members of the Board's sub-committees shall be based on the time spent by Directors on the job and the responsibilities associated with the role. When determining remuneration to the Directors of the Board, consideration shall be given to the remuneration paid to board directors of comparable companies. Members of the Board of Directors are not remunerated in shares, purchase or put options, pre-emptive rights, warrants or any other payments related to shares in the Company or the share price development in the Company.

The Remuneration Committee re-evaluates the remuneration of members of the Board of Directors annually taking into consideration, among other things, wage development within Icelandair, development of the general wage index as well as the Company's overall performance. Proposals of the Remuneration Committee on the remuneration of the members of the Board of Directors and its sub-committees, and any changes in the Remuneration Policy, are submitted to the Board of Directors which subsequently submits a proposal for a shareholders' vote at the Annual General Meeting.

The Remuneration Committee is currently reviewing the Remuneration Policy and the remuneration to the members of the Board of Directors. If any changes will be suggested, and approved by the Board of Directors, such proposals will be submitted to the Annual General Meeting for the approval of shareholders. At the Annual General Meeting 2023 it was agreed that the remuneration to the Board Members would increase by 15% and the remuneration to the Sub-Committee Members would remain umchanged. The Remuneration Committee held 2 meetings in 2023.

Remuneration Committee members:

Gudmundur Hafsteinsson, Chairman
Nina Jonsson
Matthew Evans

Nomination Committee

Icelandair Group operates a Nomination Committee which has an advisory role in the selection of members of the Board of Directors. The Committee presents its proposal to 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 review its Rules of Procedure as needed and have any changes approved by the Board of Directors annually.

Corporate Governance Statement, contd.:

Nomination Committee, contd.:

The Nomination Committee consists of three members. The Shareholders' meeting elects two members, one man and one woman, which are nominated by shareholders. Subsequently, the Board of Directors nominates one member.

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 the 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, the Confederation of Icelandic Employers and Nasdaq Iceland. The Nomination Committee held six meetings in 2023 and furthermore had meetings with members of Icelandair's Executive Committee and the largest shareholders.

Nomination Committee members:

Hjorleifur Palsson, Chairman
Helga Arnadottir
Ulfar Steindorsson (nominated by the Board of Directors)

Health & Safety Committee

The purpose of the Health & Safety Committee is to maintain oversight of the development and implementation of Icelandair's s Health & Safety Policies and initiatives. In addition, the Committee serves as a forum for in-depth discussions on Icelandair’s safety matters and relevant considerations to health and risk mitigation strategies. At the start of its term, the Board of Directors selects up to two of its members to serve on the Health & Safety Committee.

The Health & Safety Committee was formed to foster closer involvement from the Board of Directors with Icelandair's Health & Safety policies. The Committee has extensive knowledge and experience of airline safety matters in addition to a strong background within the industry. As a result, it can provide valuable support to the organization on health & safety topics. All quarterly Board of Directors meetings include a ten-minute safety review. The committee held four meetings in 2023.

Health & Safety Committee members:

John F. Thomas, Chairman
Nina Jonsson

The Board of Directors

At the Annual General Meeting of Icelandair Group, held on 9 March 2023, the following were elected members of the Board of Directors; Guðmundur Hafsteinsson, John F. Thomas, Matthew Evans, Nina Jonsson and Svafa Grönfeldt. Guðmundur Hafsteinsson was elected as the Chairman of the board.

Gudmundur Hafsteinsson, Chairman
Guðmundur joined the Board of Icelandair Group on 8 March 2018. He is born in 1975 and is an Icelandic and U.S. citizen. Guðmundur is independent of the Company, its management and significant shareholders and holds 8,555,555 shares. Further information.

John F. Thomas
John joined the Board of Icelandair Group on 6 March 2020. He is born in 1959 and is an Australian and U.S. citizen. John is independent of the Company and holds 3,394,500 shares. Further information.

Matthew Evans
Matthew joined the Board of Icelandair Group on 23 July 2021. He is born in 1986 and is a U.S. citizen. Matthew is independent of the Company and its management. However, he serves on the Board as the representative of the Company’s largest shareholder and as such he is not independent from the Company’s major shareholders. He neither holds shares nor share options in the Company. Further information.

Nina Jonsson, Vice Chairman
Nina joined the Board of Icelandair Group on 6 March 2020. She is born in 1967 and is an Icelandic and U.S. citizen. Nina is independent of the Company, its management and significant shareholders and holds no shares. Further information.

Svafa Grönfeldt
Svafa joined the Board of Icelandair Group on 8 March 2019. She is born in 1965 and is an Icelandic and U.S. citizen. Svafa is independent of the Company, its management and significant shareholders and holds 12,500,000 shares. Further information.

Corporate Governance Statement, contd.:

The Board of Directors, contd.:

The Company's Board of Directors exercises supreme authority in the Company's affairs between shareholders' meetings, and it is entrusted with the task of ensuring that the organization 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.

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 policies 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 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 AGM, or extraordinary shareholders' meeting at which elections are scheduled. Only those who have formally 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 made 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 shareholders and he shall inform the Board on their views.

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 Remuneration Committee and the Audit Committee. These sub-committees adhere to the Rules on Working Procedures. The Nomination and Audit Committees have its own Rules of Procedures which are approved by the Board. The Board of Directors convened ten 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. All Board members were independent of the Company’s major shareholders in 2023 with the exception of Matthew Evans who represents the largest shareholder.

Corporate Governance Statement, contd.:

Executive committee

Bogi Nils Bogason, President & CEO
Bogi holds 23,625,000 shares and 22,100,00 share options and has no interests linked with the Company's main clients, competitors, or major shareholders. The seven members of the Executive Committee hold 81,700,000 share options.

Árni Hermannsson, Managing Director Loftleidir Icelandic
Elísabet Helgadóttir, Chief Human Resources Officer
Einar Már Guðmundsson, Managing Director Icelandair Cargo
Ívar S. Kristinsson, Chief Financial Officer
Rakel Óttarsdottir, Chief Digital Officer
Sylvía Kristín Ólafsdóttir, Chief Operating Officer
Tomas Ingason, Chief Commercial Officer

The Executive Committee held 84 meetings in 2023. In August it was resolved to combine the Customer and Revenue divisions into a single Commercial division. Tómas Ingason is responsible for the Commercial division as Chief Commercial Officer. Sylvía Kristín Ólafsdóttir moved from the role of Chief Customer Officer to the role of Chief Operating Officer. Jens Bjarnason stepped down as Icelandair's Chief Operating Officer and moved to a different role within the Company. In September, Einar Már Guðmundsson took on the role of Interim Managing Director of Icelandair Cargo and took a seat on the Executive Committee. He was permanently appointed to the position in November. Further information about the Executive Committee members can be found on the Icelandair Group website.

Non-Financial Reporting

Business Model

The heart of the Icelandair business model is its international route network built on the unique location of Iceland which serves as a connecting hub between Europe and North America. This unique route network creates a competitive advantage for Icelandair and drives value creation for its shareholders and other stakeholders. The route network allows Icelandair to serve four distinct markets: to, from, via and within Iceland. In addition, the Company runs both cargo and aircraft leasing and consulting services that complement and further strengthen its core network operations.

Icelandair Group, hereafter Icelandair, reached an important milestone in 2023 by turning a profit after taxes for the first time since 2017. Revenue generation was very strong during the year with strong demand in all markets, especially from North America to Iceland. Icelandair transported 4.3 million passengers in 2023, 17% more than the year before and offered flights to 55 destinations and added 6 new destinations to the network.

Corporate Strategy

Icelandair's corporate strategy provides a compass for the entire organization, articulating its vision for the future, strategic priorities, and the core values of the Company. Icelandair's vision, the guiding light of the organization, is to “bring the spirit of Iceland to the world” and its mission is to “offer smooth and enjoyable journeys to, from, via and within Iceland, our hub and home”. The values of passion, simplicity and responsibility represent the principles of the Company culture, and the guiding principles that represent the keys to successful decision making and resource allocation in the day-to-day operation are:

- The way to fly to, from, via and within Iceland – which is a reminder to continually strive to bolster the Company's value proposition and improve customer experience
- Agile and financially sustainable business – which highlights the value of operating in a nimble manner while being financially responsible
- Embracing our people and the planet – which underlines that all decisions should be made with full consideration given to the Company's responsibilities towards its people, the wider community, and the environment

Each year Icelandair defines formal corporate objectives that set out priorities for the year to provide the employees with further guidance on the Company’s strategic direction. In 2023, Icelandair worked towards three corporate objectives and made good progress towards each one:

- Be the leading hub carrier in Keflavik
- Reinforce our culture of passion and care
- Raise On-Time Performance (OTP)

Sustainability

Changes in the regulatory environment

The European Union has introduced the European Green Deal, which consists of a series of major proposals, important commitments, and a detailed roadmap with the goal for Europe to become the world's first climate-neutral continent by 2050. The European Green Deal is supported by the Sustainable Finance Strategy, which aims to finance the sustainable transition and re-orient investments towards more sustainable technologies and businesses. One aspect of the European Green Deal is the new Corporate Sustainability Reporting Directive (CSRD), its accompanying European Sustainability Reporting Standards (ESRS) and directions on alignment with the EU Taxonomy Regulation.

The EU Taxonomy Regulation entered into effect in Iceland in June 2023 and the adaptation of the CSRD into Icelandic law is expected to be submitted in the Parliament in 2024.

CSRD expands the scope of non-financial reporting with new disclosure requirements. One of the key requirements of CSRD is that companies perform a double materiality assessment (DMA) to identify which sustainability matters are material for the company. Double materiality, as defined by the CSRD, comprises impact materiality and financial materiality. Impact materiality refers to the company’s impacts on the environment and society. Financial materiality refers to the risks and opportunities that a company faces in relation to the environment and society. A sustainability matter is considered material for a company if it fulfils the requirements for impact materiality, financial materiality, or both.

To ensure compliance with the new CSRD regulation, Icelandair is working with external consultants on the preparation for its reporting in 2025 for the financial year 2024. A double materiality assessment is the first step in the implementation of CSRD and was performed in the latter part of 2023. As a result of that work, eight of the ten ESG topics have been assessed as material for Icelandair.

Non-Financial Reporting, contd.:

Sustainability, contd.:

The four standards that have been assessed as material from both an impact and financial perspective are:

- Climate change (E1)
- Circular economy (E5)
- Own workforce (S1)
- Business conduct (G1)

The four standards that have been assessed as material from an impact perspective are:

- Pollution (E2)
- Workers in the value chain (S2)
- Affected communities (S3)
- Consumers and end-users (S4)

Two standards have been assessed as non-material and they are:

- Water and marine resources (E3)
- Biodiversity and ecosystems (E4)

Based on the results of the DMA as well as the list of disclosures for the mandatory standards, ESRS 1 and 2, and a gap assessment will be conducted in the first part of 2024 to identify the documentation and data needed to comply with the disclosure requirements. It includes reviewing currently available data, assessing its quality and reliability, starting to collect new types of data, and developing policies and implementing new processes to prepare Icelandair for disclose in accordance with CSRD when it enters into force.

As the leading airline in Iceland and an important employer, Icelandair takes its responsibility towards all stakeholders seriously. Defined key stakeholders are employees, customers, shareholders, suppliers and partners, the tourism industry, various NGOs, and the Icelandic authorities. The Company has approached selected groups of stakeholders before for their views on sustainability-related topics. In 2024 a new dialogue will be initiated with key stakeholders based on the results from the double materiality assessment for verification of materiality.

Icelandair supports the United Nations' Sustainable Development Goals (SDGs) and has chosen four goals that represent the Company's key sustainability focus areas. These are climate action, gender equality, responsible consumption and production and decent work and economic growth. The Company's sustainability data is presented in accordance with the Nasdaq's ESG Reporting Guide 2.0 (Environment, Society and Governance). It is published both in this appendix as well as in the annual report with more detailed information.

Environment

Icelandair Group recognizes the impact that air travel has on the environment. The Company is dedicated to minimizing its environmental impact by addressing its responsibilities to reduce emissions, conserve natural resources, as well as optimize the use of sustainable energy and recyclable materials as stated in Icelandair Environmental Policy on Icelandair Group's website. Climate risk, both physical and transition risk, is an important risk factor for the Company but it can also create new opportunities when managed successfully. Further information on climate risk can be found in note 34 in the Consolidated Financial Statements.

Icelandair is certified to the highest level of the IEnvA environmental assessment program from IATA, which requires demonstration of ongoing environmental performance improvements. The IEnvA program is based on recognized environmental management principles, ISO 14001, and assessments are conducted by accredited independent organizations. In April 2023, Icelandair was audited by the international assessor ACS and the Company has now received certifications for passing the assessment successfully. Globally, 17 airlines have achieved IEnvA stage 2 environmental certification from IATA. However, Icelandair is the only airline in that group to have received certification for all scopes of the assessment which includes all flight operations, general operations, including the cargo operation, the leasing business, catering, ground handling and maintenance.

As part of the Company's efforts of addressing its environmental impact, both globally and locally, Icelandair participates in the work of various environmental working groups, within organizations such as the International Air Transport Association (IATA) and Airlines for Europe (A4E).

Non-Financial Reporting, contd.:

EU Taxonomy

As described by the European Commission, the EU Taxonomy is a classification system for determining sustainable economic activities that provides companies, investors, and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable with regards to the six environmental objectives that have been established. The Taxonomy Climate Delegated Act has been in force since 2021 for two environmental objectives within the EU Taxonomy – Climate change mitigation and Climate change adaptation – and were amended with additional activities in 2023. In 2023 the EU also published an Environmental Delegated Act specifying activities for the remaining four environmental objectives – Sustainable use and protection of water and marine resources, Circular economy, Pollution & prevention control, and Biodiversity & ecosystems.

Icelandair's Taxonomy-eligible activities

Icelandair has reached out for external consultancy to understand the extent of the regulation for the Company. An initial screening and interpretation of the criteria was done in the fall of 2023 to determine whether Icelandair's business activities were eligible under the EU Taxonomy. According to the screening, Icelandair is eligible for four economic activities included in the amended Climate Delegated Act, as listed here below. Subsequently, for the financial year 2023, Icelandair will report on turnover, capital expenditures and operating expenditures related to these activities.

The Company will continue to work on alignment, minimum safeguards, and further implementation of the EU Taxonomy to prepare for disclosure for the financial year 2024.

3.21 Manufacturing of aircraft

Description of the activity: Manufacture, repair, maintenance, overhaul, retrofitting, design, repurposing and upgrade of aircraft and aircraft parts and equipment.

Icelandair does have financial streams relating to manufacturing of aircraft, specifically repair and maintenance.

6.18 Leasing of aircraft

Description of the activity: Renting and leasing of aircraft and aircraft parts and equipment.

Icelandair does have financial streams relating to leasing of aircraft. Through its leasing business, Loftleidir Icelandic, Icelandair is involved in the leasing of aircraft for airlines and tour operators.

6.19 Passenger and freight air transport

Description of the activity: Purchase, financing, and operation of aircraft including transport of passengers and goods. The economic activity does not include leasing of aircraft referred to in Section 6.18.

Icelandair does have financial streams relating to passenger and freight air transport. Icelandair operates an international passenger airline and route network, specifically flying to and from Europe and North America. The focus of Icelandair's airfreight and logistics operations is on air freight services to and from Iceland, by leveraging the passenger route network together with scheduled air freighter flights, operating designated cargo aircraft.

6.20 Air transport ground handling operations

Description of the activity: Manufacture, repair, maintenance, overhaul, retrofitting, design, repurposing and upgrade, purchase, financing, renting, leasing and operation of equipment and service activities including ground services activities at airports and cargo handling, such as loading and unloading of goods.

Icelandair does have financial streams relating to ground handling operation. Ground handling involves a range of services provided on the ground to aircraft, passengers, and cargo.

Non-Financial Reporting, contd.:

Taxonomy non-eligibility

Icelandair's business activities that are currently not included in the EU Taxonomy, and thus not assessed as Taxonomy eligible, comprise the Taxonomy non-eligible percentage (%)

Calculation of turnover, Capex and Opex

Amounts are in USD thousand

Economic activities	**% of turnover**	**% of Capex**	**% of Opex**
A. Eligible activities			
Manufacturing of aircraft	0.1%	18.5%	12.1%
Leasing of aircraft	4.7%	22.6%	3.5%
Passenger and freight air transport	93.4%	55.6%	75.6%
Air transport ground handling operations	0.9%	3.4%	8.8%
B. Non-eligible activities			
Non-eligible activities	0.9%	0.0%	0.0%
Total	100.0%	100.0%	100.0%

Climate

To address the global challenge of climate change Icelandair has set goals, aiming to achieve net zero emissions by 2050, and monitors fuel efficiency and CO2 emissions from flight operations. In addition, the Company has set specific targets for reducing CO2 emissions per Operational Ton Kilometer (OTK) from flight operations by 2030 compared to 2019. The total emissions from aviation in 2023 were 1,113,4672, a reduction of 18% compared to 2019. The emissions from the route network includes domestic and regional routes. The emissions from aviation are reported annually to the Environmental Agency of Iceland.

Operational Ton Kilometer (OTK) is how much CO2 is emitted moving one payload ton one kilometer and takes into consideration the weight of the aircraft, passengers, and cargo.

	2023	**2022**
Total CO2 emissions	1,113,467	950,107
kgCO2 emissions per OTK	0.76	0.77

Decision on Icelandair’s future fleet was taken in the year 2023 with an agreement with Airbus on the purchase of up to 25 A321XLR aircraft. Deliveries will commence in 2029. Icelandair also finalized long-term agreements for four new A321LR aircraft in 2023 and additional three in 2024. Delivery of the first four is expected during the winter 2024-2025 and the three remaining aircraft in the winter 2025-2026. These aircraft are of a new generation of more environmentally friendly aircraft and therefore an important part of reducing carbon emissions within the operations.

Fleet renewal is currently the most effective measure to reach ambitious goals in reducing carbon emissions. A part of the fleet renewal process is the decommissioning of older aircraft. Two Boeing 757 aircraft were decommissioned during the year. This process involves that all usable and sellable parts are removed for further use. This applies to technical parts, seats, and other interior items. The rest of the aircraft is then torn down and recycled by a specialized recycling company.

In September 2023 a new law, ReFuelEU, was adopted in the European Parliament with the aim to increase the uptake of sustainable fuels in the aviation sector. It came into effect on 1 January 2024. It obliges EU airports and fuel suppliers to ensure that, starting from 2025, at least 2% of aviation fuels will be sustainable, with this share increasing every five years: 6% in 2030, 20% in 2035, 34% in 2040, 42% in 2045 and 70% in 2050.

Airlines have been part of the EU’s emissions trading system, the ETS system, since 2012. Since the beginning, the total number of emissions allowances in the system has been steadily reduced. In 2023, changes were made to the system to ensure a further reduction in emissions and they were implemented into Icelandic laws at the end of 2023. The changes include faster deduction of the number of allowances and that the allocation of free emissions allowances to airlines will be phased out from 2024 to 2026

Non-Financial Reporting, contd.:

Climate, contd.:

The Icelandic government reached an agreement with the EU Commission on Iceland's adaptation to Directive (EU) 2023/958 on the ETS system in aviation. This adjustment includes that airlines flying to and from Iceland receive a 100% reimbursement of the price difference between all sustainable aviation fuel and fossil fuel at airports in Iceland. In addition, they will also have a permission to maintain the allocation of free emission allowances to airlines in 2025 and 2026, which can correspond to the number of allowances that the airlines will be allocated in 2024. The condition of the allocation is that the airlines submit a carbon neutrality plan to the Environment Agency.

Icelandair is fully committed to reach its climate goals and participate in industry groups and forums to stimulate the technological innovation that will be needed for zero carbon emission aviation such as the Nordic Initiative for Sustainable Aviation (NISA) and the Nordic Network for Electric Aviation (NEA).

Waste

Icelandair's goal is to minimize waste and increase recycling in all operations where restrictions by laws and regulations do not restrict waste separation.

	2023	2022
Amount of waste	1338 tons	1160 tons
Sorted waste	41%	33%
General waste	59%	67%

The amount of waste is relative to the number of flights flown and passengers transported, therefore, the total amount of waste increases between years. Laws and regulations have always restricted waste separation on board, and Icelandair has for years called for changes in regulations about recycling waste from international flights, which has until now all been incinerated due to these regulations. In good cooperation with the Environment Agency of Iceland and the Icelandic Food and Veterinary Agency, new guidelines were implemented at the beginning of the year that enable airlines to sort clean recyclables, i.e., plastic, paper and aluminum cans coming into Iceland. Icelandair therefore started to sort recyclables at the end of February and about 34% of the waste from the airplanes was sorted during the year. That is reflected in the overall sorted waste percentage going up to 41% from 33% the previous year.

Icelandair also participated in a joint project with IATA where the focus is to pressure authorities in Europe and North America to allow airlines to recycle waste in outstations. This included doing a recycling trial on one of the North American routes in November where the sorted and general waste were weighed and registered.

Icelandair has offered passengers the option to offset the carbon footprint of their air travel since September 2019. Passenger participation in this program during 2023 contributed to the planting of around 2500 trees over the year. The carbon offset program was devised in co-operation with Klappir Green Solutions and Kolvidur – the Iceland Carbon Fund to cultivate forests in Iceland and sequestering carbon from the atmosphere through tree planting. At the end of the year the carbon calculator was taken out of use as the Company is in the process of developing a new and more accessible solution for carbon compensation for passengers that will be implemented in 2024.

Society

As the airline that brings the majority of tourists to Iceland and as an important employer in the country, Icelandair's operations are vital for Icelandic tourism, the local economy and society at large. Icelandair Group contributes directly to the Icelandic economy in the form of salaries, salary-related expenses, and pension contributions in addition to its indirect contribution that drives economic benefits not only to the local tourism industry but the Icelandic economy as a whole.

Icelandair continued its efforts to contribute to Icelandic society through its diverse partnerships that reflect the Company's strategy and approach to social responsibility and are underpinned by its vision of "bringing the spirit of Iceland to the world". Icelandair supports Icelandic music through Iceland Airwaves and Icelandic Music Experiments. The Company has also been a proud sponsor of the main sports federations in Iceland for years. To support the development of tourism in Iceland, the Company is a founding member of the Icelandic Tourism Fund, which invests in innovation in tourism. The Company also partners with Iceland's main volunteer search-and-rescue team on safe travel as well as flight safety and emergency response. Furthermore, together with contributions from its passengers, Icelandair supports the Special Children Travel Fund which helps families of children with long-term illnesses and children who live in difficult circumstances.

Non-Financial Reporting, contd.:

Tax footprint

Icelandair contributes directly to the Icelandic economy in the form taxes and fees paid to the government and municipalities. The total tax footprint of Icelandair Group in 2023 amounted to USD 400.6 million (2022: USD 328.9 million).

Total tax footprint of Icelandair Group in USD thousand

	2023			2022		
	Iceland	Other Countries	Total	Iceland	Other Countries	Total
Salary-related taxes	21,080	417	21,497	17,904	373	18,277
Pension fund contribution	47,599	1,282	48,881	38,062	44	38,106
Emission charges	0	23,272	23,272	0	15,112	15,112
Landing fees	14,596	32,169	46,765	13,222	23,554	36,776
Other taxes	4,346	0	4,346	1,494	0	1,494
Companies fees	87,621	57,139	144,761	70,683	39,083	109,765
Employee income taxes	100,180	336	100,517	86,062	393	86,455
Passenger taxes	41,818	107,006	148,824	32,183	90,075	122,258
Collected taxes	141,999	107,342	249,341	118,245	90,468	208,714
Deferred payments on payroll taxes	6,535	0	6,535	10,401	0	10,401
Total tax footprint	236,155	164,481	400,636	199,329	129,551	328,880

Employees

Icelandair's employees are one of the Company's greatest strategic assets. All employees are part of the same team and the Company's core values – passion, simplicity, and responsibility – are the principles that guide the Company to maintain a strong and motivating company culture. Employees can report potential breaches of the Company's Code of Ethics by talking to their Superior or the Compliance Officer. Code of Ethics for Icelandair can be found on Icelandair's website.

About five hundred more employees were employed by the company at year end 2023 than the previous year and fewer employees left the company during the year with turnover rates coming down to 4% from 8%.

	2023	2022
Turnover rates	4%	8%
Average FTEs	3638	3045
FTEs year end	3542	3023

That is one of the reasons the year 2023 was unprecedented when it comes to employee training. Not only was this the most extensive training period in Icelandair's history but also the most extensive in Icelandic aviation history. This period understandably did put heavy strain on the Company's infrastructure, but the quality of the training and safety were always top priority. The number of students trained during the year were 6.836, but that number does not reflect the number of individuals as some employees received more than one type of training

Non-Financial Reporting, contd.:

Employees, contd.:

General health and well-being of Icelandair employees is a priority where the Company is committed to providing an attractive and exciting place to work where people can thrive 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 to further its employee's health and wellbeing. The Health & Attendance Policy outlines how risk is managed and how zero accidents culture is obtained by a number of measures, one being that all incidents must be recorded. Promoting good health among employees is high on the Company's agenda and initiatives have been launched with the overall aim of improving the well-being of all employees. Further to this the Company has a service agreement with the health protection service, Heilsuvernd, on confidential medical services ensuring employee's' access to health care.

The Company implemented the EASA regulation 2018/1042 in 2023 which includes technical requirements and administrative procedures related to introducing support programs, psychological assessment of flight crew, as well as systematic and random testing of psychoactive substances to ensure medical fitness of flight and cabin crew members.

The Company is proud of how its team of people has adapted to a new hybrid work model based on the policy Flexible working @ Icelandair. The aim of the policy is to provide employees with the flexibility and opportunity to work remotely when the job does not require them to be onsite. In addition to increased flexibility and good work-life balance for employees, this policy also gives the Company an opportunity to recruit and employ the best talent for the organization irrespective of location and reduce carbon footprint by decreasing unnecessary transportation. In the past year the Company continued emphasizing strong communication and information flow from the leadership team and necessary support in remote working.

Icelandair 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 which has been mandatory for all new employees from 2020. All cabin crew members have been trained in relation to human trafficking awareness and preventive actions.

Icelandair has a clear policy against bullying, sexual and gender-related harassment, and violence in accordance with the Act No. 1009/2015, in addition to also having rules on procedure for whistleblowing in accordance with Act No. 40/2020.

To simplify the process of announcing undesirable behavior or breach of legal obligations or other reprehensible misconduct within the Company, it implemented a simple online announcement tool for employees, which is called Tilkynna.is. The tool provides the possibility to send a comment regarding a behavior with a name included or anonymously. The announcer receives access to a communication channel where further information can be provided and updates can be received on the matter reported. All managers received appropriate training and open lectures were held for all employees.

One of Icelandair sustainability focus areas is gender equality. The Company emphasizes equality, diversity, and non-discrimination. This focus, which ensures that all employees are provided with equal opportunities and equal rights, is an integral part of the Company's Equal Rights Policy and Equal Rights Plan.

	2023	2022
Overal gender ratio, men / women	54% / 46%	54% / 46%

The Company promotes equality by providing equal job opportunities and fairness for employees and job applicants. Rich emphasis is on building diverse teams and any discrimination is not tolerated. Diversity in the leadership team is especially important.

Achieving gender equality across the Company's operations remains one of the Company's core focus areas when it comes to sustainability. The Company continues its efforts towards its long-term goals in this area. Icelandair Group has set targets in line with IATA's "25by25" equality project about gender equality within management, pilot roles, cabin crew positions and aircraft maintenance.

Objectives for 2025

- Never less than 40% of either men or women in management positions
- Increase the number of female pilot positions by 25% compared to 2021
- Increase the number of male cabin crew positions by 25% compared to 2021
- Increase the number of female aircraft maintenance technicians by promoting the job and education to girls

Non-Financial Reporting, contd.:

Employees, contd.:

In 2023 the ratio of women in management positions is 42%. The share of female pilot positions has increased by 280% since 2021 and the share of male cabin crew positions has increased by 136% since 2021. Icelandair signed an agreement with the Technical College in Reykjavik in 2023 regarding the promotion and future development of education and jobs in aircraft maintenance engineering.

Before Covid, Icelandair was among the airlines that had the highest proportion of female pilots in the world, or 12%. However, the effects of Covid-19 changed the landscape for female pilots significantly and the proportion of female pilots dropped to 5% in 2021 but with the successful ramp-up of Icelandair's operations following the pandemic the proportion of female pilots was 14% in 2023. Male cabin crew members were 5% 10 years ago but are up to 15% in 2023 because of targeted changes in the hiring process.

	2023	2022	2021
Female pilots	14%	11%	5%
Male cabin crew	15%	14%	11%

Icelandair implemented an equal pay policy in 2018. The purpose of the Equal Pay Policy, found on the Company's website, is to ensure gender pay equality in the Company through the implementation of an Equal Pay System. Icelandair commits to ensuring that equal wages are paid for jobs of equal value, irrespective of gender. Enforcement of the Policy and ensuring full observance of gender equality in decisions on wages is the responsibility of management. Two companies within Icelandair Group, Icelandair and Icelandair Cargo had been certified by a third party and received Equal pay certification in 2021, the certification for the companies has been combined in one and recertified for 2022-2025. Icelandair's Equality Plan which is an integral part of the equal pay system contains goals that are defined and a project execution plan where responsibilities and key steps are stated. The equality plan consists of more than 20 actions.

Governance practices

In 2022, the Company continued to work to centralize and improve procurement functions across all its operations as responsible procurement has previously been identified as a material issue for Icelandair. The intention is to work with responsible suppliers throughout the supply chain, including sustainability criteria on transparency, legal compliance, and responsible growth. Supplier Code of Conduct can be found on Icelandair Group website.

In 2023, the goal was to implement a new responsible Sourcing and Procurement policy That work will continue in 2024 and the Company will monitor the implementation of the new European Corporate Sustainability Due Diligence Directive (CSDDD) for reference. More emphasis will be put on qualifying and monitoring suppliers in a systematic way, with self-assessments and risk evaluations.

Human Rights

The Company respects fair labor practices and contractors, sub-contractors and work agencies working for Icelandair shall ensure that wages, wage-related obligations and safety in the workplace all comply with Icelandair's standards. Importance is placed on ensuring that employees respect the equal rights policy and conduct themselves within its spirit. All discrimination, such as based on gender, age, origin, religion, operating field, opinions or position in other respects, is not permitted.

Anti-corruption and bribery policy

Icelandair Group conducts all its business in an honest and ethical manner and the integrity of 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.

Icelandair Group's anti-corruption and bribery policy applies to the entire Icelandair Group workforce at all levels and grades (whether permanent, fixed-term or temporary), and all operations, subsidiaries and affiliates in all countries that the company operates in. The Anti corruption and bribery policy can be found on the Company website.

Assurance

The information presented in this Appendix has not been assured by a third party. However some information has been assured independently. The Company's Equal Pay management system is audited by BSI every year. The environmental management system is certified by IATA every other year and the independent auditing company ACS performs the audits on their behalf. The CO2 emissions from flights are audited by Verifavia every year in relation to the ETS and Corsia validating process. The environmental data such as water, electricity and waste are gathered through a software by Klappir – Green solutions. Sustainability and climate relate topics are discussed at the Board of Directors quarterly meetings from the beginning of 2023.bls.

Non-Financial Reporting, contd.:

ESG Accounting

Environmental Metrics

E1 GhG Emissions	Units	2023	2022
Total amount, in CO2 equivalents, for Scope 1	tCO2e	1,114,297	951,572
Total amount, in CO2 equivalents, for Scope 2	tCO2e	243	222
Total amount, in CO2 equivalents, for Scope 3	tCO2e	114	114
E2 Emissions Intensity			
Total GhG emission per output scaling factor	tCO2e per FTEs	306	313
	tCO2e per passenger	0.26	0.26
Total CO2 emissions per scaling factor	CO2 per OTK	0.76	0.77
E3 Energy Usage			
Total amount of energy directly consumed (fossil fuels)	kWh	4,532,282,210	3,932,409,653
Total amount of energy indirectly consumed (electricity and heat)	kWh	26,196,708	24,144,673
E4 Energy Intensity			
Total direct energy usage per output scaling factor	kWh per FTEs	1,253,018	1,299,361
	kWh per passenger	1,064	1,082
E5 Energy Mix			
Non renewable energy (fossil fuels are the primary energy source)	%	99%	99%
Renewable energy	%	1%	1%
E6 Water Usage			
Total amount of water consumed	m3	376,458	342,546
Total amount of water reclaimed	m3	-	-
E7 Environmental Operations			
Does your company follow a formal Environmental Policy	Yes/No	Yes	Yes
Does your company follow specific waste, water, energy, and/or recycling policies	Yes/No	Yes	Yes
Does your company use a recognized energy management system	Yes/No	Yes	Yes
E8 Climate Oversight / Board			
Does your Board of Directors oversee and/or manage climate-related risks	Yes/No	No	No
E9 Climate Oversight / Management			
Does your Senior Management Team oversee and/or manage climate-related risks	Yes/No	Yes	Yes
E10 Climate Risk Mitigation			
Total amount invested, annually, in climate-related infrastructure, resilience, and product development	ISK	-	-

Non-Financial Reporting, contd.:

Social data metrics

	Units	2023	2022
S1 CEO Pay ratio			
CEO total compensation to median FTE total compensation	ratio	5.68	5.53
Does your company report this metric in regulatory filings	Yes/No	Yes	Yes
S2 Gender Pay Ratio			
Gender pay analysis (regular earnings)	%	2.8% in favor of men	2.9% in favor of men
S3 Employee Turnover			
Year-over-year change for full-time employees	%	4%	8%
S4 Gender Diversity			
Total enterprise headcount	women/men%	46/54	46/54
Entry- and mid- level positions held by men and women	women/men%	-	-
Senior- and executive-level positions held by men and women (only executive committee)	women/men%	38/62	33/67
S5 Temporary Worker Ratio			
Total enterprise headcount held by part-time employees	women/men%	-	-
Total enterprise headcount held by contractors and/or consultants	women/men%	-	-
S6 Non-Discrimination			
Does your company follow a sexual harassment and/or non-discrimination policy	Yes/No	Yes	Yes
S7 Injury Rate			
Frequency of injury events relative to total workforce time		-	-
S8 Global Health & Safety			
Does your company follow an occupational health and/or global health & safety policy	Yes/No	Yes	Yes
S9 Child & Forced Labour			
Does your company follow a child and/or forced labour policy	Yes/No	Part of CoC	Part of CoC
If yes, does your child and/or forced labor policy also cover suppliers and vendors	Yes/No	Part of SCoC	Part of SCoC
S10 Human Rights			
Does your company follow a human rights policy	Yes/No	Yes	Yes
If yes, does your human rights policy also cover suppliers and vendors	Yes/No	Yes	Yes

Non-Financial Reporting, contd.:

Governance Metrics

	Units	2023	2022
G1 Board Diversity			
Total board seats occupied by women (as compared to men)	%	40%	40%
Committee chairs occupied by women (as compared to men)	%	0%	0%
G2 Board Independence			
Does company prohibit CEO from serving as board chair	Yes/No	Yes	Yes
Total board seats occupied by independants	%	80%	80%
G3 Incentivized Pay			
Are executives formally incentivized to perform on sustainability	Yes/No	Yes	Yes
G4 Collective Bargaining			
Total enterprise headcount covered by collective bargaining agreements	%	99%	97%
G5 Supplier Code of Conduct			
Are your vendors or suppliers required to follow a Code of Conduct	Yes/No	Yes	Yes
G6 Ethics & Anti-Corruption			
Does your company follow an Ethics and/or Anti-Corruption policy	Yes/No	Yes	Yes
If yes, what percentage of your workforce has formally certified its compliance with the policy	%	100% of new employees	100% of new employees
G7 Data Privacy			
Does your company follow a Data Privacy policy	Yes/No	Yes	Yes
Has your company taken steps to comply with GDPR rules	Yes/No	Yes	Yes
G8 ESG Reporting			
Does your company publish a sustainability report	Yes/No	Yes	Yes
Is sustainability data included in your regulatory filings	Yes/No	Yes	Yes
G9 Disclosure Practices			
Does your company provide sustainability data to sustainability reporting frameworks ?	Yes/No	Yes	Yes
Does your company focus on specific UN Sustainable Development Goals (SDGs)	Yes/No	Yes	Yes
Does your company set targets and report progress on the UN SDGs	Yes/No	Yes	Yes
G10 External Assurance			
Are your sustainability disclosures assured or validated by a third party	Yes/No	No	No

More Information

Further information about Icelandair Group's Sustainability and non-financial aspects of the business is published in the Company's Annual Report and on the Company's website.

Operational Risk

Overview

The Group considers the following to be its main operational risks as at year-end 2023:

- macroeconomic and competition risk
- regulatory risk
- technical risk
- reputational risk
- safety and security risk
- environmental and sustainability risk
- labor market risk

Macroeconomic and competition risk

Icelandair Group operates an international passenger airline and route network as well as ground handling, maintenance, cargo, and charter operations. The Company's business, and demand for its services are therefore highly susceptible to general macroeconomic conditions in all its markets. A slowing economy, whether globally or locally, might decrease consumer spending e.g., in the event of lower employment levels, higher interest and/or inflation rates, diminished access to credit, or exchange rates fluctuations. All this can adversely affect the Company's operations and financial standing.

Uncertain economic and, as a result financial market conditions, can affect jet fuel prices, interest rates and currency exchange rates as was the case in 2023 with continued geopolitical unrest and relatively high inflation. The Company cannot guarantee that its liquidity and access to acceptably priced financing will always be sufficient or unaffected by external macroeconomic trends or financial market volatility, whether global or domestic. This in turn might have subsequent implications for loan covenants, the Company's financing costs, fair value of assets and overall financial condition.

Competition amongst airlines is high which heavily influences pricing decisions. In general, the airline industry is susceptible to fare discounting due to the low marginal costs of adding passengers to otherwise empty seats. New market entrants, especially low-cost carriers, mergers, acquisitions, consolidations, new partnerships, and transparency of pricing in the air travel market are examples of factors influencing competition. Unless the Group can offer a competitive product, it stands the risk of not meeting its revenue and profit targets. 2023 saw a disproportionate increase in capacity to and from Keflavík airport, Icelandair's hub and home.

The Group monitors trends and demand in its key markets closely through regular surveys and discussions with trade partners. The Company further imposes strict cost control in all its operations to stay competitive while safeguarding its ability to offer attractive value propositions to its customers.

Safety and security risk

The loss or grounding of an aircraft, such as due to an accident, design defects or operational malfunction would cause significant losses for the Group and impact its reputation and customer confidence. Such incidents and wreckages can be the result of various factors ranging from human error or misconduct to adverse or extreme weather to deferred maintenance. Should this risk materialize, it would bring about both direct costs such as repair or replacement costs and passenger claims as well as indirect costs such as the potentially poorer perception of the safety of the Company's chosen fleet.

Demand for airline travel is moreover highly vulnerable to events outside the Company's control such as natural disasters, terrorist attacks, armed conflicts, and pandemics. Such events could individually or collectively cause disruptions to flight schedules that in extreme cases can lead to prolonged suspension of certain routes and closure of airports as well as the future operational environment and regulatory burden of airlines. Seismic activity was ongoing on the Reykjanes Peninsula in late 2023 culminating in a volcanic eruption on 18 December. Although neither Keflavík airport nor the Company's flight schedule was affected by the events they nonetheless impacted the Company's revenue generation in the last part of the year.

The acute nature of such events may limit the Company's ability to mitigate the associated risks. In this respect it is important to note that the airport itself is not situated on an active volcanic system. Disruptions would therefore likely be limited to or associated with temporary loss of electricity or water supplies. The Company has in previous crisis demonstrated a high level of flexibility and resilience that has allowed the Company to withstand short to medium-term demand shocks. The Company has in place, and regularly reviews, safety measures, emergency response protocols and working procedures that prioritize the safety and security of its passengers and staff, which is at the heart of the Company's operations.

Operational Risk, contd.:

Regulatory risk

Regulatory risk refers to the potential financial and operational impacts that changes in government regulations can have on the airline industry. This can include changes in safety regulations, environmental and sustainability regulations, and rules surrounding air traffic control, among others. Airlines must constantly monitor and adapt to these regulatory changes, which can be costly and time-consuming. Additionally, non-compliance with regulations can result in fines and penalties, further adding to the financial risks faced by the industry.

An evolving and growing issue for airlines is government regulations aimed at environmental protection such as taxation on jet fuel, mandates on implementing SAF et.al. to reach goals of reducing carbon emissions. Moreover, the industry is subject to various local restrictions around airports such as to reduce noise and pollution. This can concern opening hours of airports, availability of slots and the usage of airspace. Congestion and environmental restrictions can for example lead to delays or increase the complexity of departure and approach maneuvers which may act to reduce productivity and increase costs.

The airline and tourism industries are subject to numerous fees and charges as well as an everchanging tax environment, which can have a direct effect on ticket pricing and demand. Examples of airline specific costs are take-off, transit and landing fees, noise, navigation, and emission charges in addition to value added tax. Unless mitigated through higher pricing these taxes act to increase operating costs.

Icelandair is a member of IATA and Airlines for Europe (A4E) that guard the interests of airlines and provide input on their behalf to local, national, and supra-national governmental bodies on policy frameworks regarding the above issues. Icelandair further endeavors to maintain good relations with airport operators and the Icelandic government with the same objective.

The Company's shares are traded on Nasdaq Iceland’s Regulated Market. The Company is therefore subject to the Icelandic Securities Transactions Act and subsequent regulations as well as Nasdaq Iceland's Rules for Issuers. Violation of these provisions, whether intended or unintentional, could have adverse financial impact on the Company. Serious breaches may result in penalties and Nasdaq Iceland halting trading in the shares. Icelandair has a Compliance Officer and compliance processes in place to mitigate the risk of any breaches. The Company further maintains a good relationship with its oversight authority, the Financial Supervisory Authority – Iceland.

Environmental and sustainability risk

Climate change poses significant financial risks to the aviation industry. The effects include both physical risks such as flight delays or airport closures and related costs, as well as contractual, regulatory, and legal compliance risks. In the shorter-term, risks are more likely to be associated with disruptive events, such as extreme weather events like storms or extreme heat, which can lead to delays, cancellations, and infrastructure damage. In the longer-term, gradual but persistent impacts, such as temperature change or sea level rise, may lead to business and wider macro-economic effects such as changes in tourist demand and damage or loss of infrastructure.

Risings costs of carbon offsetting, such as through the EU, UK and Swiss Emissions Trading System, and the bid for sustainable growth requires the Company to address its environmental impact, both globally and locally. As part of this effort, the Company participates in the work of various environmental working groups, such as with IATA and Airlines for Europe (A4E). A4E’s goal is to ensure the sustainable growth of aviation and contribute positively to the socioeconomic development of European nations. Icelandair Group is committed to implementing an emission mitigation scheme in line with CORSIA. CORSIA will be implemented in stages and once fully reached Icelandair will be committed to neutralizing all carbon emission beyond the emission of 2019, which has been chosen as the baseline year. Among actions taken by Icelandair are setting new medium- and long-term targets to reduce CO2 emissions from flight operations and setting up action plans to achieve those targets. Action plans relate to Sustainable aviation fuels, operational improvements, fleet renewal, new technology and carbon compensation.

The ultimate costs borne by airlines in respect of environmental and sustainability factors will be determined by the chosen methods imposed by governments and/or supra-national bodies to combat climate change. These are likely to include a mix of economic, political, and social measures. The pace of the demand for transition to more sustainable energy sources and other mitigating measures will determine the magnitude of impacts to the business.

Operational Risk, contd.:

Technical risk

The Company's operations are dependent on IT and other systems. Failure or disruption to IT, financial or management systems, whether internal or external, could affect the Company’s ability to carry out its daily operations and services to its customers. Many factors that can cause such systems to fail are outside the Company's control.

Icelandair Group makes every effort to minimize the risk of disruption with the aim of securing the Company's business continuity. Among measures that the Company has in place are documented procedures regarding access to information and other systems, the back-up and storing of data, remote access via virtual private network clients and the disposal of confidential or otherwise sensitive material. Virus protection for all computers and servers are centrally managed, internet connectivity is secured by firewalls and web security gateways, and all services open for external usage are secured by an application firewall. The Company offers regular seminars to its employees to guard against fraud and phishing e-mail attempts.

The Company collects and retains personal information received from customers and is therefore subject to the EU's General Data Protection Regulation (EU) 2016/679 (“GDPR”) aimed at protecting personal data held by businesses and other organizations. These requirements include but are not limited to implementing certain policies and processes, developing an effective internal data protection management system, and appointing a data protection officer. If found non-compliant to the GDPR regulators can, determined by the level of the infringement, levy fines of up to 4% of a company’s annual worldwide turnover. The Executive Committee considers the Company to be GDPR compliant.

Labor market risk

The airline and tourism industries are inherently labor-intensive industries. Most of the Company's employees are unionized; and represented by several unions, each of which has its own collective agreement on salaries and benefits with the Group's companies. Each union's contract comes up for renegotiation every few years, bringing with it a risk that the parties will not reach an immediate agreement, resulting in a jeopardy of production disruptions through strikes. In 2020 the Company signed new long-term wage agreements with its cabin crew, pilots and aircraft mechanics’ which collectively make up the vast majority of the Company’s employees. These agreements are valid until the second half of 2025 and as such mitigate the risk for disruptions caused by strikes in the near to medium term. The Company seeks to maintain good relations with its union representatives through active dialogue and regular meetings to foster a culture of mutual respect and understanding.

Reputational risk

The Group is subject to various risks that can lead to disruptions and interruptions to flight schedules. These include computer faults, accidents, labor unrest, weather conditions, delays by service providers, congestion, and unexpected maintenance. Additionally, increased focus on sustainability factors requires the Company to address its environmental and social impact, both globally and locally.

Serious or repeated interruptions to services, or a perception that the Company is not conducting itself in a socially or environmentally responsible manner, can result in a decline in demand for the Company's products and services thus hurting revenue generation. It further brings on the risk of tarnishing the Company's reputation and/or its individual brand names that might take a long time to repair.

ICELANDAIR GROUP

Quarterly Statement

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

	Q1	Q2	Q3	Q4	Total
Year 2023					
Operating income					
Passanger airfare	156,339	330,123	478,684	238,917	1,204,063
Ancillary revenue	14,201	22,605	29,360	19,698	85,864
Total Passanger revenue	170,540	352,728	508,044	258,615	1,289,927
Cargo revenue	23,691	22,020	20,951	21,599	88,261
Leasing revenue	19,083	19,456	13,708	19,070	71,317
Revenue from tourism	12,392	10,128	7,514	9,390	39,424
Sale at airport	1,493	1,774	2,542	1,524	7,333
Aircraft handling	1,191	1,957	2,545	1,358	7,051
Gain on sale of operating assets	125	373	73	130	701
Other Operating revenue	4,740	5,744	4,980	4,091	19,555
Total Other Operating revenue	19,941	19,976	17,654	16,493	74,064
Total other operating income	**233,255**	**414,180**	**560,357**	**315,777**	**1,523,569**
Operating expenses					
Salaries	59,756	78,996	84,725	80,203	303,680
Contributions to pension funds	9,684	12,570	13,109	13,518	48,881
Other salary-related expenses	9,222	14,364	4,380	11,037	39,003
Total salaries and salary related expenses	78,662	105,930	102,214	104,758	391,564
Aircraft fuel	60,544	82,840	117,033	84,855	345,272
Emission changes	4,060	6,474	7,944	4,794	23,272
Fuel hedges	2,004	6,266	(3,614)	(1,879)	2,777
Total Aircraft fuel cost	66,608	95,580	121,363	87,770	371,321
Aircraft and engine lease	114	6,188	3,608	2,470	12,380
Aircraft handling, landing and navigation	26,347	39,000	55,740	32,683	153,770
Aircraft maintenance expenses	22,349	25,836	25,783	24,429	98,397
Total Other aviation expenses	48,810	71,024	85,131	59,582	264,547
Travel and other employee expenses	13,636	18,799	19,323	16,356	68,114
Tourism expenses	9,113	7,283	5,850	7,286	29,532
IT expenses	7,168	8,534	9,553	8,584	33,839
Advertising	8,311	5,829	6,829	4,274	25,243
Booking fees and commission expenses	9,609	17,169	25,176	14,203	66,157
Cost of goods sold	1,123	1,320	1,900	1,429	5,772
Customer services	10,470	14,842	20,555	14,436	60,303
Operating cost of real estate and fixtures	2,366	2,390	2,584	2,352	9,692
Allowance for bad debt	535	854	115	(242)	1,262
Other Operating expenses	8,930	9,026	11,711	10,092	39,759
Total Other Operating expenses	71,261	86,046	103,596	78,770	339,673
Total operating expenses	**265,341**	**358,580**	**412,304**	**330,880**	**1,367,105**
Operating profit (loss) bef. depr. (EBITDA)	**(32,086)**	**55,600**	**148,053**	**(15,103)**	**156,464**

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Quarterly Statement, contd.:

Year 2023	Q1	Q2	Q3	Q4	Total
Depreciation of operating assets	18,164	22,393	22,537	21,571	84,665
Depreciation of right-of-use assets	11,278	12,247	13,375	13,453	50,353
Amortization of intangible assets	97	106	126	130	459
Depreciation and amortization	29,539	34,746	36,038	35,154	135,477
Operating profit (loss) (EBIT)	**(61,625)**	**20,854**	**112,015**	**(50,257)**	**20,987**
Interest income on cash and cash equivalents and marketable securities	3,847	3,055	6,262	10,245	23,409
Interest income on lease receivables	50	42	32	101	225
Other interest income	851	517	1,180	1,126	3,674
Net currency exchange gain	1,590	(438)	0	(1,152)	0
Finance income total	6,338	3,176	7,474	10,320	27,308
Interest expenses on loans and borrowings	(4,278)	(4,784)	(4,985)	(4,895)	(18,942)
Interest on lease liabilities	(4,405)	(4,968)	(4,727)	(4,615)	(18,715)
Other interest expenses	(597)	(679)	(844)	(927)	(3,047)
Net currency exchange loss	0	0	(2,359)	2,101	(258)
Finance costs total	(9,280)	(10,431)	(12,915)	(8,336)	(40,962)
Net finance cost	**(2,942)**	**(7,255)**	**(5,441)**	**1,984**	**(13,654)**
Gain on sale of subsidiary	0	1,381	0	0	1,381
Share of loss of associates	(535)	361	(370)	(381)	(925)
Profit (loss) before tax (EBT)	**(65,102)**	**15,341**	**106,204**	**(48,654)**	**7,789**
Income tax	15,970	(1,685)	(21,740)	10,835	3,380
Profit (loss)	**(49,132)**	**13,656**	**84,464**	**(37,819)**	**11,169**
Other comprehensive profit (loss)	**2,072**	**997**	**10,942**	**(10,533)**	**3,478**
Total comprehensive (loss) income	**(47,060)**	**14,653**	**95,406**	**(48,352)**	**14,647**
Net cash from (used in) operating activities	154,414	129,001	(41,441)	(26,853)	215,121
Net cash from (used in) investing activities	(67,825)	(51,452)	(41,668)	(22,758)	(183,703)
Net cash from (used in) financing activities	37,296	(25,660)	(30,019)	(38,237)	(56,620)

Consolidated Financial Statements of Icelandair Group hf. 2023 70 Amounts are in USD thousands

Alternative performance measures (APMs)

Traffic	2023 YTD	2022 YTD
Available seat-kilometers (ASKm.)	15,666	13,253
RASK (US cents)	8.4	8.2
CASK (US cents)	8.4	8.4
CASK less fuel (US cents)	6.2	5.7
Revenue seat-kilometers (RPKm.)	12,767	10,569
Passengers total	4,285,977	3,658,363
On-Time-Performance (OTP)	77.1%	73.0%
Passenger flights	16,966	14,785
Passenger load factor	81.5%	79.7%
Sold Block Hours - Leasing	15,388	14,666
Freight ton kilometers (FTK´000)	177,448	132,029
Total CO2 emissions tons	1,113,467	951,109
CO2 emissions per OTK	0.77	0.88
Passenger mix		
To	1,766,906	1,481,964
From	610,489	556,196
Via	1,644,355	1,350,969
Within	264,227	269,234

Capital structure	2023 31.12	2022 31.12
Total cash and marketable securities (USD ´000)	270,522	266,411
Liquidity (USD ´000)	322,522	318,411
Net interest-bearing debt (USD ´000)	(18,192)	(10,694)
Net lease liabilites (USD ´000)	370,564	336,392
Net financial liabilities (USD ´000)	352,372	325,698
Current ratio	0.71	0.74
Equity ratio	0.19	0.19
Intrinsic value of share capital	0.93	0.88

Other	2023 YTD	2022 YTD
Effective fuel price (USD pr. Metric tonn)	967	1,156
CAPEX, gross (USD ´000)	144,747	314,508
CAPEX, net (USD ´000)	143,780	202,290
FTE	3,638	3,045

Alternative performance measures (APMs), contd.:

Traffic

Available seat-kilometers (ASK) .	The total number of seats available on scheduled flights multiplied by the number of kilometers these seats were flown
RASK	Total revenues on a given flight divided by the ASK on that same flight
CASK	Total operating and depreciation cost per available seat kilometer is calculated by dividing total operating and depreciation cost on a given flight by availble seat kilometers (ASK) on that flight
CASK less fuel	Total operating and depreciation cost per available seat kilometer less fuel is calculated by deducting cost of fuel, fuel hedges, carbon emissions trading expenses and de-icing from total operating and depreciation cost and divide by total availble seat kilometers (ASK)
Revenue seat-kilometers (RPK) .	The number of revenue passengers carried on scheduled flights multiplied by the number of kilometers those seats were flown
Passengers total	Each passenger is counted by the number of flight coupons his journey requires. A passenger flying KEF-CPH is counted as one passenger, a passenger flying NYC-KEF-CPH is counted as two passengers
On-Time-Performance (OTP)	A measure of flights arriving within 15 minutes of scheduled arrival time. OTP is calculated by diving the number of arrivals that arrive within 15 minutes of scheduled arrival time with the total number of arrivals
Passenger flights	Flight flown by an airline for the purpose of carrying passengers, belly freight and mail according to a published timetable for which it receives commercial remuneration
Passenger load factor	Calculated by dividing RPK by ASK
Sold Block Hours - Leasing	Sold Block hours in the leasing operation. Block Hours is the time computed from the moment the blocks are removed from the wheels of the aircraft until they are replaced at the next point of landing
Freight ton kilometers (FTK)	The number of tons of freight carried, obtained by counting each ton of freight on a particular flight (with one flight number)
Total CO2 emissions tons	Carbon emission from all operations, including scope 2 and 3 emissions, measured in tons
CO2 emissions per OTK	Carbon emission measured relative to one ton of carried passengers and cargo loads one kilometer
Passenger mix:	
To	Passenger visiting Iceland
From	Passengers originating in Iceland visiting destinations outside of Iceland
VIA	Passengers traveling across the Atlantic connecting in Iceland
Within	Passengers traveling solely within Iceland

Capital sturcture

Total cash and marketable securities	Cash and cash equivalents (including cash from assets held for sale) and marketable securities
Liquidity	Total cash and cash equivalents (including cash from assets held for sale), marketable securities and undrawn revolving facilities
Net interest-bearing debt	Loans and borrowings, net of total cash and marketable securities
Net lease liabilities	Lease liabilities (including assets held for sale, net of lease receivables)
Current ratio	Indicates how many times over current assets can cover current liabilities and is calculated by dividing current assets with current liabilities
Equity ratio	Indicates the ratio of how leveraged the Company is and is calculated by dividing total equity with total equity and liabilities
Intrinsic value of share capital	Indicates the book value of each share and is calculated by dividing total equity with share capital

Alternative performance measures (APMs), contd.:

Other

Effective fuel price	Cost of jet fuel and surcharges, including hedging results, but excluding de-icing and emissions trading cost (pr. ton)
CAPEX, gross	Capital expenditure of operating assets, intangible assets and deferred cost
CAPEX, net	Capital expenditure of operating assets, intangible assets and deferred cost less proceeds from sale of operating assets
FTE	Average full time employee equivalent

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