Icelandair Group hf.

Condensed Consolidated Interim Financial Statements

3 | 1 January – 30 September 2020

Icelandair Group hf. | Reykjavíkurflugvöllur | 102 Reykjavík Iceland | Reg. no. 631205-1780

Contents

Endorsement and Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Icelandair Group hf. for the period from 1 January to 30 September 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements (IAS 34). The Interim Financial Statements comprise the Consolidated Interim Financial Statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The Condensed Consolidated Interim Financial Statements are stated in thousands of USD.

According to the Consolidated Statement of Comprehensive Income, loss for the period from 1 January to 30 September 2020 amounted to USD 292.9 million, of which USD 224.6 million in one-off COVID-19 related cost. Total comprehensive loss for the period was USD 340.1 million. Equity at the end of the period amounted to USD 293.1 million, including share capital in the amount of USD 213.0 million, according to the Consolidated Statement of Financial Position. Reference is made to the Consolidated Statement of Changes in Equity regarding information on changes in equity.

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. The Condensed Consolidated Interim Financial Statements have neither been audited nor reviewed by the Company's independent auditors.

The COVID-19 pandemic continues to have a severe impact on the aviation and travel industries with high uncertainty for the foreseeable future. In particular it remains unclear when global travel might resume its pre-COVID levels. Travel restrictions are still in place to and from the US, one of Group‘s most important geographical segments, and various countries in Europe continue to apply certain restrictions which affect travellers.

To respond to the situation, the Group has taken extensive measures to get through an extended period of minimum operations, including a considerable reduction in the number of employees and changes to its organizational structure. At the same time, the Group has acted swiftly and seized opportunities that the current situation has created, such as in the cargo and leasing operations. The Group's overall strategy aims at securing the continuity of necessary core operations and safeguarding the flexibility needed for swift scale-up when markets recover.

The Group has undergone financial restructuring which was completed in September with the execution of a successful share offering whereby the Company raised ISK 23,000 million in new equity. All investors that got allotted new shares in the offering were further issued warrants to buy additional shares in the Company at certain dates in the future. The warrants, amounting to 25% of the nominal value of new shares sold in the offering, were issued to investors free of charge. The exercise price for each warrant is ISK 1 per share plus accrued annual interest which is set at 15%. The warrants may be exercised in three separate steps, the first of which will be in August 2021. Any warrants not exercised will lapse and become void. The warrants can, if exercised in full, raise up to USD 7 million in additional equity for the Company over their lifetime. The warrants have been listed on the Nasdaq Iceland Main Market and can be traded freely independant of the shares until their respective exercise periods.

The offering was a key component in effectuating a series of deferral agreements that the Group had previously reached with various stakeholders that include unions, lenders, lessors, acquirers, the Boeing Company and other vendors. A successful share offering was further a condition for the Company's access to a government guaranteed credit facility that was approved by the Icelandic Parliament on 4 September 2020. The credit facility, now formally in place, is in the amount of USD 120 million 90% of which are guaranteed by the government.

Discussions with lenders included renegotiations of financial covenants in loan agreements that have now taken affect, curing any breaches that the Group was in at the end of the second quarter. According to the restructured terms the equity ratio will be the Group's primary financial covenant in the coming quarters, the minimum of which is aligned with the Group's conservative ramp-up plan with a certain flexibility built-in. The covenant is therefore set somewhat below management estimates. The equity ratio shall be a minimum of 8-10% in terms of loan agreements with lenders and a minimum of 2% in terms of the government guaranteed credit facility. The amended equity ratio covenant will be in place until Q1-Q3 2022, depending on lenders, at which time the pre-COVID-19 financial covenants will resume to take effect.

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

In addition to its market based financial restructuring efforts the Group has partaken in various government offered COVID-19 relief options for companies.

Negotiations with Boeing regarding additional compensation for financial losses resulting from the grounding of the MAX aircraft type were completed on 11 August 2020. The fully executed agreement involves financial compensation as well as a permanent cancellation of four out of the ten aircraft that the Group is yet to take delivery of. The six aircraft still on order are expected to be delivered during the period Q2 2021 to the first half of 2022, pending that the aircraft will be certified. It is now expected that the MAX aircraft will be certified by regulators before the end of 2020 and that it will return to service in the Icelandair route network in Q1 2021.

According to our best knowledge it is our opinion that the Condensed Consolidated Interim Financial Statements give a true and fair view of the financial performance of the Group for the nine month period ended 30 September 2020, its assets, liabilities and consolidated financial position as at 30 September 2020 and its consolidated cash flows for the period then ended.

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

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statements of Icelandair Group hf. for the period from 1 January to 30 September 2020 and confirm them by means of their signatures.

Reykjavík, 26 October 2020.

Board of Directors:

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

CEO:

Bogi Nils Bogason

Consolidated Statement of Comprehensive Income
for the period from 1 January to 30 September 2020

	Notes	2020 Q3	2019 Q3 Restated *	2020 YTD	2019 YTD Restated *
Operating income					
Transport revenue	7	56,073	422,640	227,691	914,478
Aircraft and aircrew lease		4,404	23,464	57,992	67,781
Other operating revenue	7	43,104	87,839	87,686	203,053
		103,581	533,943	373,369	1,185,312
Operating expenses					
Salaries and salary related expenses		29,045	102,111	161,803	319,222
Aviation expenses		22,964	191,831	145,129	455,345
Other operating expenses		18,652	112,367	119,645	284,756
	8	70,661	406,309	426,577	1,059,323
Operating profit (loss) before depreciation and amortisation (EBITDA)		32,920	127,634	(53,208)	125,989
Depreciation and amortisation	9	(29,454)	(46,566)	(133,400)	(128,604)
Impairment	12	0	0	(116,158)	0
Operating profit (loss) before net finance costs (EBIT)		3,466	81,068	(302,766)	(2,615)
Finance income		(3,015)	3,538	9,001	5,030
Finance costs		(4,300)	(7,688)	(29,680)	(27,456)
Fair value changes		19,860	0	(27,587)	0
Gain on sale of a subsidiary		0	0	22,454	0
Net finance income (loss)	10	12,545	(4,150)	(25,812)	(22,426)
Share of loss of associates, net of tax	22	(638)	(450)	(12,273)	(7,465)
Profit (loss) before tax		15,373	76,468	(340,851)	(32,506)
Income tax		22,778	(15,008)	47,956	4,587
Profit (loss) for the period		38,151	61,460	(292,895)	(27,919)
Other comprehensive loss:					
Foreign currency translation differences of foreign operations		16,530	665	(12,432)	(1,853)
Net (loss) profit on hedge of investment, net of tax		(8,662)	453	(10,103)	(4,799)
Effective portion of changes in fair value of cash flow hedge, net of tax		(22,030)	7,428	(24,662)	18,129
Other comprehensive (loss) profit for the period		(14,162)	8,546	(47,197)	11,477
Total comprehensive profit (loss) for the period		23,989	70,006	(340,092)	(16,442)
Loss attributable to:					
Owners of the Company		38,444	61,530	(283,566)	(25,700)
Non-controlling interest		(293)	(70)	(9,329)	(2,219)
Profit (loss) for the period		38,151	61,460	(292,895)	(27,919)
Total comprehensive loss attributable to:					
Owners of the Company		24,218	69,914	(339,353)	(14,679)
Non-controlling interest		(229)	92	(740)	(1,763)
Total comprehensive profit (loss) for the period		23,989	70,006	(340,092)	(16,442)
Earnings per share:					
Basic earnings per share in US cent per share		1.12	1.19	(5.00)	(0.54)
Diluted earnings per share in US cent per share		1.04	1.19	(5.08)	(0.54)

* See further note 26.

The notes on pages 9 to 26 are an integral part of these Interim Consolidation Financial Statements.

Interim Financial Statements of Icelandair Group hf. 30 September 2020 5 Amounts are in USD thousands

Consolidated Statement of Financial Position as at 30 September 2020

	Notes	30.9.2020	31.12.2019
Assets			
Operating assets		523,675	630,400
Right-of-use assets		122,815	134,035
Intangible assets and goodwill	11	60,713	175,231
Investments in associates	22	22,875	25,784
Deferred cost		3,817	4,741
Receivables and deposits		22,575	44,967
Deferred tax asset		26,815	0
Non-current assets		783,285	1,015,158
Inventories		23,240	22,689
Derivatives used for hedging		0	1,881
Trade and other receivables		104,009	124,879
Assets classified as held for sale	6	0	276,907
Marketable securities		36,030	0
Cash and cash equivalents		191,026	235,073
Current assets		354,305	661,429
Total assets		1,137,590	1,676,587
Equity			
Share capital		212,969	44,199
Share premium		174,299	174,299
Reserves	13	(22,169)	45,449
Retained earnings		(70,697)	219,132
Equity attributable to equity holders of the Company		294,402	483,079
Non-controlling interest		(1,341)	(601)
Total equity		293,061	482,478
Liabilities			
Loans and borrowings	14	253,211	241,328
Lease liabilities	15	121,455	135,473
Payables		16,423	23,418
Derivatives used for hedging	18	12,533	0
Warrants	16	7,519	0
Deferred tax liabilities		0	25,679
Non-current liabilities		411,142	425,898
Loans and borrowings	14	11,047	79,958
Lease liabilities	15	23,323	22,980
Warrants	16	3,400	0
Derivatives used for hedging	18	14,067	1,561
Liabilities classified as held for sale	6	0	238,732
Trade and other payables		165,367	221,000
Deferred income	17	216,181	203,980
Current liabilities		433,386	768,211
Total liabilities		844,528	1,194,109
Total equity and liabilities		1,137,590	1,676,587

The notes on pages 9 to 26 are an integral part of these Interim Consolidation Financial Statements.

Interim Financial Statements of Icelandair Group hf. 30 September 2020 6 Amounts are in USD thousands

Consolidated Statement of Changes in Equity
for the period from 1 January to 30 September 2020

	Attributable to equity holders of the Company						
1 January to 30 September 2019	**Share capital**	**Share premium**	**Reserves***	**Retained earnings**	**Total**	**Non-con-trolling interest**	**Total equity**
Equity 1 January 2019	39,053	133,513	26,262	271,034	469,862	1,517	471,379
Total comprehensive loss			11,021	(25,700)	(14,679)	(1,763)	(16,442)
Shares issued	5,146	40,786			45,932		45,932
Effects of profit or loss and dividend from subsidiaries			(3,668)	3,668			
Equity 30 September 2019	44,199	174,299	33,615	249,002	501,115	(246)	500,869
1 January to 30 September 2020							
Equity 1 January 2020	44,199	174,299	45,449	219,132	483,079	(601)	482,478
Total comprehensive loss			(55,787)	(283,566)	(339,353)	(740)	(340,092)
Shares issued	168,770			(1,899)	166,871		166,871
Warrants issued				(16,197)	(16,197)		(16,197)
Effects of profit or loss of subsidiaries			(11,831)	11,831			
Equity 30 September 2020	212,969	174,299	(22,169)	(70,697)	294,402	(1,341)	293,061

* See further in note 13.

The notes on pages 9 to 26 are an integral part of these Interim Consolidation Financial Statements.

Interim Financial Statements of Icelandair Group hf. 30 September 2020 7 Amounts are in USD thousands

Consolidated Statement of Cash Flows for the nine months ended 30 September 2020

	Notes	2020 Q3	2019 Q3 Restated *	2020 YTD	2019 YTD Restated *
Cash flows from (to) operating activities					
Profit (loss) for the period		38,151	61,460	(292,895)	(27,919)
Adjustments for:					
Depreciation and amortisation		29,454	46,566	133,400	128,604
Impairment		0	0	116,158	0
Expensed deferred cost		3,867	5,007	10,598	17,224
Net finance costs		7,315	4,150	20,679	22,426
Changes in fair value of derivatives		(19,860)	0	27,587	0
Gain on sale of operating assets		0	(65)	(2)	(2,389)
Gain on sale of a subsidiary		0	0	(22,454)	0
Share in loss of associates		638	450	12,273	7,465
Deferred taxes		(22,778)	15,008	(47,956)	(4,587)
		36,787	132,576	(42,612)	140,824
Changes in:					
Inventories, (increase) decrease		(1,576)	569	(842)	(2,981)
Trade and other receivables, decrease (increase)		14,481	(8,096)	23,790	(50,307)
Trade and other payables, (decrease) increase		(180,686)	495	(90,810)	43,867
Deferred income, increase (decrease)		45,965	(142,737)	11,293	(12,185)
Cash generated to operating activities		(121,816)	(149,769)	(56,569)	(21,606)
Interest received		738	976	1,401	1,830
Interest paid		(3,969)	(12,403)	(16,954)	(28,214)
Net cash to operating activities		(88,260)	(28,620)	(114,734)	92,834
Cash flows used in investing activities:					
Acquisition of operating assets		(7,945)	(16,676)	(35,264)	(219,179)
Proceeds from sale of operating assets		0	3,049	8	154,085
Deferred cost		0	(2,939)	(5,380)	(17,280)
Acquisition of intangible assets		(27)	(3,049)	(671)	(4,637)
Proceeds from sale of a subsidiary		0	0	45,312	0
Non-current receivables, change		11,016	1,927	21,536	(6,360)
Cash attributable to assets held for sale	6	0	8,461	(4,920)	(7,254)
Marketable securities, change		(36,030)	0	(36,030)	0
Net cash used in investing activities		(32,986)	(9,227)	(15,409)	(100,625)
Cash flows from (used in) financing activities:					
Shares issued		166,396	0	166,396	45,932
Proceeds from non-current borrowings		0	0	0	79,799
Repayment of non-current borrowings		(2,827)	(5,828)	(15,436)	(226,221)
Repayment of lease liabilites		(5,097)	(6,863)	(19,653)	(22,689)
Repayment of short term borrowings		0	47,080	(42,258)	4,198
Net cash from (used in) financing activities		158,472	34,389	89,049	(118,981)
Increase (decrease) in cash and cash equivalents		37,226	(3,458)	(41,094)	(126,772)
Effect of exchange rate fluctuations on cash held		175	(250)	(2,953)	(1,445)
Cash and cash equivalents at beginning of the period		153,625	174,951	235,073	299,460
Cash and cash equivalents at 30 September		191,026	171,243	191,026	171,243
Investment and financing without cash flow effect:					
Acquisition of right-of-use assets		0	(1,509)	(5,295)	(109,725)
New or renewed leases		0	2,280	5,295	110,496
Non-current receivables		0	(771)	0	(771)
Warrants issued		16,197	0	16,197	0
Retained earnings		(16,197)	0	(16,197)	0

* See further note 26.

The notes on pages 9 to 26 are an integral part of these Interim Consolidation Financial Statements.

Interim Financial Statements of Icelandair Group hf. 30 September 2020 8 Amounts are in USD thousands

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The Condensed Consolidated Interim Financial Statements of the Company as at and for the nine months ended 30 September 2020 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group's interests in associates. The Group primarily operates in the airline and tourism sectors. The Company is listed on Nasdaq Iceland.

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

2. Basis of accounting

The Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for Consolidated Financial Statements of listed companies. These Interim Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting. Interim Consolidated Financial Statements have been prepared under the historical cost convention, except for financial assets and liabilities, which are valued at fair value through other Comprehensive Income. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual Consolidated Financial Statements as at and for the year ended 31 December 2019.

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

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

These Interim Financial Statements were approved for issue by the Board of Directors on 26 October 2020.

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

3. Use of judgements and estimates

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

Due to COVID-19, the aviation and travel industries are facing tremendous uncertainty. Travel restrictions are still in place to and from the US, one of Group‘s most important geographical segment, and various countries in Europe still apply certain restrictions which affect travellers. There is also great uncertainty around when demand for travel will return to normal levels, i.e. as they were prior to COVID-19. In preparation of the Consolidated Interim Financial Statements, the management adjusted its estimations and assumptions towards the current unprecedented circumstances resulting in changes in valuation and accounting treatment of jet fuel hedges, precautionary reserve on engine life of B757 aircraft and impairment of goodwill.

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

4. Changes in accounting policies

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

Notes, contd.:

5. Operating segments

Segment information is presented in the Interim Financial Statements in respect of the Group's business segments, which are the primary basis of segment reporting.

The business segment reporting format reflects the Group's management and internal reporting structure. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis.

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

Icelandair

The largest entity of the Group, the international passenger airline Icelandair ehf., including its subsidiaries Icelandair Cargo and Air Iceland Connect, has been identified for financial reporting purposes as a reportable operating segment. Icelandair‘s route network is based on the Hub and Spoke concept between Europe and North America via Iceland, leveraging Iceland's geographical position. This successful strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed Icelandair to constantly grow and expand its route network over the past years. Icelandair Cargo offers freight services by utilizing the capacity within aircraft of the Icelandair passenger network as well as with their own freighters. Air Iceland Connect, the domestic and regional carrier, was integrated into the operations of Icelandair in the beginning of Q2 2020.

The parent, Icelandair Group hf., is listed on the Nasdaq Iceland stock exchange and is the holding company. Iceeignir, a real estate company that holds the real estate of Icelandair Group, IceCap, a captive insurance company and A320, a dormant, are platform functions of the business that primarily support the Group entities in this segment and are therefore classified within this segment.

Other Group entities

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

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

Notes, contd.:

5. Operating segments, contd.:

Reportable segments for the nine months ended 30 September 2020

	Icelandair	Other Group entities	Total
External revenue	285,108	88,261	373,369
Inter-segment revenue	57,138	711	57,849
Segment revenue	342,246	88,972	431,218
Depreciation and amortisation	(123,177)	(10,223)	(133,400)
Impairment	(82,859)	(33,299)	(116,158)
Segment EBIT	(248,699)	(54,066)	(302,766)
Finance income	22,076	1,170	23,246
Finance costs	(35,371)	(8,554)	(43,925)
Gain on sale of a subsidiary	0	22,454	22,454
Fair value change	(27,587)	0	(27,587)
Share of profit of equity accounted investees	(12,275)	2	(12,273)
Reportable segment loss before tax	(301,856)	(38,994)	(340,851)
Reportable segment assets	1,396,323	73,290	1,469,613

Reportable segments for the nine months ended 30 September 2019 (restated)

	Icelandair	Other Group entities	Total
External revenue	959,420	225,892	1,185,312
Inter-segment revenue	88,385	8,930	97,315
Segment revenue	1,047,805	234,822	1,282,627
Depreciation and amortisation	(102,679)	(25,925)	(128,604)
Segment EBIT	(27,248)	24,633	(2,615)
Finance income	15,337	803	16,140
Finance costs	(32,277)	(6,289)	(38,566)
Share of profit of equity accounted investees	957	(8,422)	(7,465)
Reportable segment loss before tax	(43,231)	10,725	(32,506)
Reportable segment assets	2,019,479	388,073	2,407,552

Interim Financial Statements of Icelandair Group hf. 30 September 2020 11 Amounts are in USD thousands

Notes, contd.:

5. Operating segments, contd.:

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

	2020 YTD	2019 YTD
Revenue		
Total revenue for reportable segments	431,218	1,282,627
Elimination of inter-segment revenue	(57,849)	(97,315)
Consolidated revenue	373,369	1,185,312
Profit or loss		
Consolidated loss before tax	(340,851)	(32,506)
Assets		
Total assets for reportable segments	1,469,613	2,407,552
Investments in associates	22,727	25,850
Elimination of inter-segment assets	(354,750)	(754,278)
Consolidated total assets	1,137,590	1,679,124
Liabilities		
Total liabilities for reportable segments	1,206,614	1,693,860
Elimination of inter-segment liabilities	(362,086)	(515,604)
Consolidated total liabilities	844,528	1,178,256

Other material items	Reportable segment totals	Adjust-ments	Consoli-dated totals
1.1.-30.9. 2020			
Segment EBIT	(302,766)		(302,766)
Finance income	23,246	(14,245)	9,001
Finance costs	(43,925)	14,245	(29,680)
Depreciation and amortisation	(133,400)		(133,400)
Share of profit of associates	(12,273)		(12,273)
Capital expenditure	(9,377)		(9,377)
1.1.-30.9. 2019			
Segment EBIT	(2,615)		(2,615)
Finance income	16,140	(11,110)	5,030
Finance costs	(38,566)	11,110	(27,456)
Depreciation and amortisation	(128,604)		(128,604)
Share of profit of associates	(7,465)		(7,465)
Capital expenditure	223,816		223,816

Interim Financial Statements of Icelandair Group hf. 30 September 2020 12 Amounts are in USD thousands

Notes, contd.:

5. Operating segments, contd.:

Geographic information

The geographic information analyses the Group's revenue as the majority of the Group's clients are outside of Iceland. The vast majority of the Group's non-current assets are located in Iceland. In presenting the following information the Group's revenues have been based on geographic location of customers.

Due to the COVID-19 pandemic and the associated wide-ranging travel restriction and decrease in travel demand, the numbers for the year 2020 are not directly comparable to the numbers for the year 2019.

	2020 YTD	**2019 YTD**
Revenue		
North America	20%	40%
Iceland	40%	21%
West Continental Europe	20%	16%
Scandinavia	6%	8%
United Kingdom	4%	5%
Other	10%	10%
Total revenue	100%	100%
Available Seat Kilometers (ASK'000) Icelandair	2,953,209	13,424,384
Available Seat Kilometers (ASK'000) Air Iceland Connect	48,500	115,541
Freight Tonne Kilometer (FTK'000) Icelandair Cargo	83,455	99,489
Sold Block Hours Loftleidir Icelandic	12,136	22,802

Notes, contd.:

6. Assets held for sale

During year 2019 Icelandair Hotels and Iceland Travel were classified as held for sale. In the beginning of year 2020, Iceland Travel was reclassified from assets held for sale. From 3 April 2020 the 25% share in Icelandair Hotels is classified as an investment in associates.

On 13 July 2019 the Company signed a share purchase agreement with Berjaya Property Ireland Limited, a subsidiary of Berjaya Land Berhad, whereby Berjaya acquired a majority share in Icelandair Hotels and related real estate. The sale was ultimately closed on 3 April 2020 with the 75% share being delivered to Berjaya the same day. Icelandair Group will retain its 25% share for a minimum of three years in line with the terms of a call and put option agreement between the parties.

The total sales price for the Company's shares has been paid in full, USD 45.3 million. The profit from the sale of 75% of shares amounted to USD 15.4 million after impairment (see further note 22) and was recognised in Q2 2020.

Impacts on the consolidated financial statements

(i) **Comprehensive income (loss)**

	2020 * Q3	2019 ** Q3	2020 * YTD	2019 ** YTD
Revenue	0	68,130	13,258	144,766
Elimination of inter-segment revenue	0	(4,364)	(979)	(9,732)
External revenue	0	63,766	12,279	135,034
Expenses	0	54,956	18,297	132,385
Elimination of expenses of inter-segment sales	0	(4,364)	(979)	(9,732)
External expenses	0	50,592	17,318	122,653
Profit (loss) from operating activities	0	13,174	(5,039)	12,381
Net finance cost	0	(2,411)	(9,190)	(10,515)
Share of profit of associates	0	37	2	23
		10,800	(14,227)	1,889
Income tax	0	(2,174)	2,648	(440)
Profit (loss) from tourism services, net of tax	0	8,626	(11,579)	1,449
Basic earnings per share in US cent per share	0.00	0.20	(0.21)	0.03
Diluted earnings per share in US cent per share	0.00	0.20	(0.21)	0.03

(ii) **Cash flows from (used in)**

	2020 * Q3	2019 ** Q3	2020 * YTD	2019 ** YTD
Net cash from operating activities	0	4,659	(1,335)	17,796
Net cash used in investing activities	0	(5,539)	(405)	(8,960)
Net cash to financing activities	0	(7,162)	(2,790)	(12,246)
Net cash flows for the period	0	(8,042)	(4,530)	(3,410)

* Icelandair Hotels
** Icelandair Hotels and Iceland Travel

Interim Financial Statements of Icelandair Group hf. 30 September 2020 14 Amounts are in USD thousands

Notes, contd.:

7. Operating income

Transport revenue is specified as follows:	2020 Q3	2019 Q3	2020 YTD	2019 YTD
Passengers	36,005	377,005	161,944	793,736
Passenger ancillary revenue	3,271	31,116	19,889	76,258
Cargo	16,797	14,519	45,858	44,484
Total transport revenue	56,073	422,640	227,691	914,478

Other operating revenue is specified as follows:				
Sale in airport and hotels	215	32,726	12,555	75,138
Revenue from tourism	2,521	41,024	17,478	87,457
Aircraft and cargo handling services	3,964	7,249	12,401	19,311
Maintenance revenue	144	1,431	1,042	3,434
Gain on sale of operating assets	0	65	2	2,376
Other operating revenue	36,260	5,344	44,208	15,337
Total other operating revenue	43,104	87,839	87,686	203,053

8. Operating expenses

Salaries and salary related expenses are specified as follows:				
Salaries	34,403	86,543	163,727	254,156
Salary related expenses	(1,815)	15,568	25,875	65,066
Subsidies of salary cost, see further note 24	(3,543)	0	(27,799)	0
Total salaries and salary related expenses	29,045	102,111	161,803	319,222

Aviation expenses are specified as follows:				
Aircraft fuel	9,394	113,406	69,773	257,093
Aircraft lease	(146)	9,603	3,937	30,403
Aircraft handling, landing and communication	6,600	47,924	35,543	111,968
Aircraft maintenance expenses	7,116	20,898	35,876	55,881
Total aviation expenses	22,964	191,831	145,129	455,345

Other operating expenses are specified as follows:				
Operating cost of real estate and fixtures	783	4,406	5,512	13,070
Communication	3,908	5,593	14,373	19,456
Advertising	1,918	4,368	7,223	16,671
Booking fees and commission expenses	(365)	25,692	18,951	58,198
Cost of goods sold	192	4,178	2,316	10,727
Customer services	2,065	18,702	16,022	47,586
Travel and other employee expenses	3,614	17,707	17,158	47,626
Tourism expenses	1,747	21,265	8,263	43,581
Allowance for bad debt *	1,601	1,408	12,839	2,431
Other operating expenses	3,189	9,048	16,988	25,410
Total other operating expenses	18,652	112,367	119,645	284,756

* The Group made an allowance for bad debt of its exposures on accounts receivable, including leasing agreements, in 2020 amounting to USD 12.8 million reflecting uncertainty in the airline industry.

Interim Financial Statements of Icelandair Group hf. 30 September 2020 15 Amounts are in USD thousands

Notes, contd.:

9. Depreciation and amortisation

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

	2020 Q3	2019 Q3	2020 YTD	2019 YTD
Depreciation of operating assets	24,379	39,156	114,677	102,286
Depreciation of right-of-use assets	4,360	5,244	16,171	21,855
Amortisation of intangible assets, see note 11	715	2,166	2,552	4,463
Total aviation expenses	29,454	46,566	133,400	128,604

10. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2020 Q3	2019 Q3	2020 YTD	2019 YTD
Interest income on bank deposits	33	1,138	478	1,887
Interest income on lease receivables	163	227	390	680
Other interest income	287	(76)	1,596	(402)
Net foreign exchange gain	(3,498)	2,249	6,537	2,865
Finance income total	(3,015)	3,538	9,001	5,030
Interest expenses on loans and borrowings	1,953	2,811	7,319	16,498
Interest on lease liabilities	1,552	4,810	6,636	10,487
Interest on Pre-Delivery Payments for aircraft (PDP)	392	0	14,647	0
Other interest expenses	403	67	1,078	471
Finance costs total	4,300	7,688	29,680	27,456
Changes in fair value of warrants, see note 16	4,986	0	4,986	0
Changes in fair value of derivatives, see note 18	14,874	0	(32,573)	0
Fair value changes	19,860	0	(27,587)	0
Gain on sale of a subsidiary	0	0	22,454	0
Net finance costs	12,545	(4,150)	(25,812)	(22,426)

11. Intangible assets and goodwill

Intangible assets and goodwill are specified as follows:

Cost	Goodwill	Trademarks and slots	Other intangibles	Total
Balance at 1 January 2019	151,833	36,013	6,988	194,834
Reclassification	1,448	(1,448)	0	0
Additions	0	0	5,654	5,654
Sales and disposals	0	0	(242)	(242)
Assets classified as held for sale	(1,988)	0	(4,749)	(6,737)
Effects of movements in exchange rates	(758)	0	(205)	(963)
Balance at 31 December 2019	150,535	34,565	7,446	192,546
Additions	0	0	671	671
Sales and disposals	(90,175)	0	0	(90,175)
Assets classified from held for sale	1,988	0	4,571	6,559
Effects of movements in exchange rates	157	0	75	232
Balance at 30 September 2020	62,505	34,565	12,763	109,833

Interim Financial Statements of Icelandair Group hf. 30 September 2020 16 Amounts are in USD thousands

Notes, contd.:

11. Intangible assets and goodwill, contd.:

Amortisation and impairment losses	Goodwill	Trademarks and slots	Other intangibles	Total
Balance at 1 January 2019	11,431	2,605	3,230	17,266
Amortisation	959	0	3,504	4,463
Sales and disposals	0	0	(44)	(44)
Assets classified as held for sale	(433)	0	(3,857)	(4,290)
Effects of movements in exchange rates	0	0	(80)	(80)
Balance at 31 December 2019	11,957	2,605	2,753	17,315
Amortisation	0	0	2,552	2,552
Impairment	116,158	0	0	116,158
Sales and disposals	(90,175)	0	0	(90,175)
Assets classified from held for sale	71	0	3,697	3,768
Effects of movements in exchange rates	0	0	(498)	(498)
Balance at 30 September 2020	38,011	2,605	8,504	49,120
Carrying amounts				
At 31 December 2019	138,578	31,960	4,693	175,231
At 30 September 2020	24,494	31,960	4,259	60,713

12. 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 recognised at fair value on acquisition dates. Goodwill and other intangible assets with indefinite life are specified as follows:

	30.9.2020	31.12.2019
Goodwill	24,494	138,578
Trademarks and airport slots	31,960	31,960
Total	56,454	170,538

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

	Goodwill		Trademarks and slots	
	30.9.2020	31.12.2019	30.9.2020	31.12.2019
Icelandair	0	82,850	22,445	22,445
Other Group entities	24,494	55,728	9,515	9,515
Total goodwill	24,494	138,578	31,960	31,960

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

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

Interim Financial Statements of Icelandair Group hf. 30 September 2020 17 Amounts are in USD thousands

Notes, contd.:

12. Impairment test, contd.:

The recoverable amounts of CGU was based on their value in use and were determined by discounting the future cash flows generated from the continuing use of the CGU. Cash flows were projected based on actual operating results and a revised 5 year business plan. Cash flows were extrapolated for determining the residual value using a constant nominal growth rate which was consistent with the long-term average growth rate for the industry. Management believes that this forecast period was justified due to the long-term nature of the business.

A impairment test was conducted on 31 March 2020 that lead to impairment being recognized in Q1 2020 as further outlined below. No impairment test has been conducted since except for an impairment test on the goodwill resulting from the sale of Icelandair Hotels. It is the Group's assessment that the assumptions used in the impairment test process at 31 March 2020 have not changed and no further recognition is needed.

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

31.3.2020	**Icelandair**	**Other Group entities**
Long term growth rate	2.0%	1.5 - 2.0%
Revenue growth:		
Weighted average 2019/2018	10.7%	-22 - 18%
2019 - 2023 / 2018 - 2022	-0.5%	2.7 - 6.6%
Budgeted EBIT growth	210.0%	-5.6 - 6.3%
WACC	10.3%	11.4 - 18.7%
Debt leverage	47.9%	28.6 - 49.9%
Interest rate for debt	4.2%	4.2 - 5.7%
31.12.2019		
Long term growth rate	3.5%	2.5 - 3.5%
Revenue growth:		
Weighted average 2019/2018	10.7%	-22 - -18%
2019 - 2023 / 2018 - 2022	4.5%	0.5 - 10.4%
Budgeted EBIT growth	202.4%	5.7 - 11.6%
WACC	10.4%	8.4 - 16.4%
Debt leverage	43.9%	27.1 - 45.8%
Interest rate for debt	4.2%	1.9 - 7.0%

The recoverable amounts of the CGU at 31 March 2020 were estimated to be lower than carrying amounts. Therefore, impairment amounting to USD 123.5 million in total has been recognized. The estimated recoverable amount of the Icelandair segment is lower by USD 77.6 million than its carrying amount. A change in WACC by 0,04% or long term EBIT of 0,08% would lead to an impairment equal to the carrying amount. Due to the sensitivity of the impairment test, the full amount of the goodwill of the Icelandair segment has been impaired (USD 82.9 million).

An impairment of USD 33.3 million has been recognized for one other Group entity.

Interim Financial Statements of Icelandair Group hf. 30 September 2020 18 Amounts are in USD thousands

Notes, contd.:

13. Equity

Reserves are specified as follows:	Hedging reserve	Translation reserve	Other reserves	Total reserves
Reserves 1 January 2019	(26,434)	35,570	17,126	26,262
Changes during the period	18,129	(2,309)	(8,467)	7,353
Reserves 30 September 2019	(8,305)	33,261	8,659	33,615
Reserves 1 January 2020	28	24,346	21,075	45,449
Changes during the period	(57,235)	5,649	(48,605)	(100,191)
Closed derivatives through P&L	32,573	0	0	32,573
Reserves 30 September 2020	(24,634)	29,995	(27,530)	(22,169)

14. Loans and borrowings

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

Non-current loans and borrowings:	30.9.2020	31.12.2019
Secured bank loans	264,258	279,028
Current maturities	(11,047)	(37,700)
Total non-current loans and borrowings	253,211	241,328
Current loans and borrowings:		
Current maturities	11,047	37,700
Bank overdrafts and bank loans	0	42,258
Total current loans and borrowings	11,047	79,958
Total loans and borrowings	264,258	321,286

Terms and debt repayment schedule:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance 30.9.2020	31.12.2019
Secured bank loans	USD	3.2%	2023-2028	170,769	181,505
Secured bank loans	EUR	1.2%	2028	64,444	65,184
Secured bank loans	ISK	3.8%	2026	29,045	32,339
Secured bank loans - short term	USD			0	29,892
Unsecured bank loans - short term	ISK			0	12,366
Total interest-bearing liabilities				264,258	321,286

As at 30 September 2020, the Group had undrawn credit lines in the amount of USD 52 million.

A government guaranteed credit facility was approved by the Icelandic Parliament on 4 September 2020. The credit facility, now formally in place, is in the amount of USD 120 million 90% of which are guaranteed by the government.

Interim Financial Statements of Icelandair Group hf. 30 September 2020 19 Amounts are in USD thousands

Notes, contd.:

14. Loans and borrowings, contd.:

Repayments of loans and borrowings are specified as follows:

	30.9.2020	31.12.2019
Repayments in 2020 (3 months)(2019: 12 months)	0	79,958
Repayments in 2021	16,896	38,116
Repayments in 2022	33,091	42,032
Repayments in 2023	43,915	37,896
Repayments in 2024	53,293	54,177
Subsequent repayments	117,063	69,107
Total loans and borrowings	264,258	321,286

As part of its financial restructuring the Group has signed deferral agreements with all major lenders. The deferral agreements include renegotiated financial covenants of long-term loan agreements which have cured any breaches thereof.

According to the restructured terms, effective at end of Q3 2020, the equity ratio will be the Group's primary financial covenant in the coming quarters, the minimum of which is aligned with the Group‘s conservative ramp-up plan with a certain flexibility built-in. The covenant is therefore set somewhat below management estimates. The equity ratio shall be a minimum of 8-10% in terms of loan agreements with lenders and a minimum of 2% in terms of the government guaranteed credit facility. The amended equity ratio covenant will be in place until Q1-Q3 2022, depending on lenders, at which time the pre-COVID-19 financial covenants will resume to take effect.

15. Lease liabilities

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

	Currency	Interest rates	Year of maturity	Total remaining balance 30.9.2020	31.12.2019
Lease liabilities	USD	4.5%	2020-2030	133,491	147,206
Lease liabilities indexed	ISK	4.6%	2020-2038	8,159	9,000
Lease liabilities	GBP	2.2%	2020-2025	1,378	1,604
Lease liabilities	other	2.8%	2020-2028	869	643
Rent concessions	USD	4.7%	2021	881	0
Current maturity				(23,323)	(22,980)
Total lease liabilities				121,455	135,473

Repayments of lease liabilities are specified as follows:

	30.9.2020	31.12.2019
Repayments in 2020 (3 months)(2019: 12 months)	5,542	22,980
Repayments in 2021	23,337	21,189
Repayments in 2022	20,520	19,893
Repayments in 2023	19,906	19,678
Repayments in 2024	18,443	18,084
Subsequent repayments	57,030	56,629
Total loans and borrowings	144,778	158,453

The Group has made a sale and leaseback agreement for one of its future Boeing 737 MAX deliveries. The initial lease liability will amount to USD 41.1 million at the time the Group will take delivery of the aircraft. See further in note 20 on Capital commitments.

Interim Financial Statements of Icelandair Group hf. 30 September 2020 20 Amounts are in USD thousands

Notes, contd.:

16. Warrant liabilites

On 18 September, 2020, the Company issued 5,750,000,000 warrants to shareholders in connection with a public share offering. Each warrant entitles the holder to purchase one new share in the Company at an exercise price equal to ISK 1.00 (one Icelandic Krona) with an addition of 15% annual interest, calculated according to a US 30/360-day count convention, at specific dates over the next two years. The first interest date is 23 September 2020 and the last interest date for each period is the end date of each respective exercise period, as specified below.

The warrants are free standing financial instruments that are legally detachable and separately exercisable from the shares included in the offering. 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 Statement of Comprehensive income according to IFRS 13, *Fair Value Measurement* .

Assumptions	**ICEAIRW 130821**	**ICEAIRW 180222**	**ICEAIRW 120822**
Issue date	18.9.2020	18.9.2020	18.9.2020
Exercise period end date	13.8.2021	18.2.2022	12.8.2022
Share price (ISK) at issue date	1.00	1.00	1.00
Share price (ISK) at reporting date	0.98	0.98	0.98
Exercise price (ISK)	1.13	1.22	1.30
Interest rate (annual)	15.0%	15.0%	15.0%
First interest date	23.9.2020	23.9.2020	23.9.2020
Volatility (annual)	95.5%	82.7%	82.7%
Risk free rate	1.5%	1.5%	1.5%
Time to Maturity (Years)	0.87	1.38	1.87
Fair value per warrant (ISK) at reporting date	0.25	0.25	0.29

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

Warrant liabilites	**ICEAIRW 130821**	**ICEAIRW 180222**	**ICEAIRW 120822**	**Total**
Fair value at issuance date	5,168	5,255	5,774	16,197
Gain on change in fair value of warrant liability	(1,675)	(1,645)	(1,666)	(4,986)
Foreign exchanges difference	(93)	(95)	(104)	(292)
Fair value as of period ending	3,400	3,515	4,004	10,919
Non-current warrant liabilities	0	3,515	4,004	7,519
Current warrant liabilities	3,400	0	0	3,400

Fair value of the warrants at issue date in the amount of USD 16.2 million was recognized through retained earnings and as a liability. During the period from issue date until 30 September 2020 the Company recognized gain on changes in fair value of its warrant liabilities in the amount of USD 5.0 million.

The warrant liabilities are considered Level 2 liabilities on the fair value hierarchy as the determination of fair value includes various assumptions about the future activities and the Company’s share price and historical volatility as inputs. No warrants were exercised during the period ending 30 September 2020.

Interim Financial Statements of Icelandair Group hf. 30 September 2020 21 Amounts are in USD thousands

Notes, contd.:

17. Deferred income

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

Deferred income is specified as follows:	30.9.2020	31.12.2019
Sold unused tickets and vouchers	186,149	154,180
Frequent flyer points	21,666	17,591
Other prepayments	8,366	32,209
Total deferred income	216,181	203,980

The amount allocated to sold unused tickets is the book value of fares and fuel surcharges that the Group has collected and is liable for to passengers. A substantial percentage of passengers have accepted vouchers for future travel in lieu of cash refunds owed to them as a result of cancelled flights. The total amount of issued vouchers at the end of the reporting period was USD 84.1 million. These vouchers are generally valid for 3 years.

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

18. Derivatives used for hedging

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

The Group has restructured its pre-COVID-19 fuel hedge positions. The new hedge positions were structured in line with the Group’s expected production levels and fuel consumption at the time of restructuring, which was in July 2020. Due to continued uncertainty surrounding production levels this approach may result in higher or lower than the officially approved hedging ratio levels during coming months. This action therefore presents a twofold deviation from the approved risk policy, i.e. both in terms of ratio (less than 40% or more than 60% of estimated usage may be hedged in certain periods) and tenure (the Group has entered hedge positions further than 18 months into the future).

Sensitivity analysis

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

	Effect on equity		Effect on P&L	
	30.9.2020	31.12.2019	30.9.2020	31.12.2019
Increase in fuel prices by 10%	2,764	12,656	0	0
Decrease in fuel prices by 10%	(2,764)	(12,656)	0	0

Interim Financial Statements of Icelandair Group hf. 30 September 2020 22 Amounts are in USD thousands

Notes, contd.:

18. Derivatives used for hedging, contd.:

Hedge accounting

The Hedge Accounting Standards of IFRS 9 requires hedge instruments to fulfill certain criteria so that the market value of open hedge positions can be allocated to equity as hedge reserves until settlement day. One of these qualifications is the requirement of effectiveness of the financial instrument against the identified exposure. The exposure has to be considered highly likely on the basis of a robust forecast of operations. Due to the COVID-19 pandemic, this exposure was revalued in Q1 2020 and materially downgraded thus rendering a large proportion of the financial instruments ineffective. The revaluation was based on a new business forecast which includes an estimation of the volume of fuel consumption covering the tenor of the open positions. The rebalancing of exposure is based on partial discontinuation. The remaining effective hedge instruments reflect 60% of the revised exposure in line with the hedging policy. As part of the Group's financial restructuring a large part of the outstanding fuel hedges were closed in Q3 2020, with the remaining positions rolled forward and spread out over the next 24 months. As a result the short term exposure to market change in fuel prices has been significantly lowered. Following the restructuring all outstanding fuel hedges are effective.

Following table shows effective and ineffective fuel hedges:

30.9.2020	Closed YTD	1-6 months	7-12 months	> 13 months	Total
Fuel		3,789	9,226	10,835	23,850
Currency		3,481	0	0	3,481
Interest rate swap		619	552	1,698	2,869
Margin accounts		(3,600)	0	0	(3,600)
Total derivatives, Payable		4,289	9,778	12,533	26,600
Tax		(1,104)	(1,956)	(2,506)	(5,566)
Derivatives used for hedge, Equity		6,785	7,822	10,027	24,634
Ineffective fuel derivatives, P&L	32,573	0	0	0	32,573

19. Financial instruments and fair values

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

	30.9.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Secured loans	(264,258)	(279,174)	(308,920)	(319,389)

Interim Financial Statements of Icelandair Group hf. 30 September 2020 23 Amounts are in USD thousands

Notes, contd.:

20. Capital commitments

In 2013, the Group and the Boeing Company signed an agreement for the purchase of sixteen Boeing 737 MAX8 and MAX9 aircraft with an option to purchase an additional eight aircraft. The Group has already taken delivery of six aircraft which have been grounded since March 2019. It is now expected that the MAX aircraft will be certified by regulators before the end of year 2020 and that it will return to service in the Icelandair route network in Q1 2021.

In August 2020 Icelandair reached a settlement with Boeing on compensation for the damages caused by the MAX grounding in which the total number of undelivered aircraft under the initial Boeing agreement was reduced from ten to six. Three aircraft are expected to be delivered in Q2 2021 and another three aircraft in the period Q4 2021 until Q1 2022, pending that the aircraft will be certified. The financing cost of PDPs for the undelivered MAX aircraft, USD 14.6 million in total, is recognized as financing cost.

In December 2018 Icelandair secured a PDP financing agreement with BOC Aviation for 11 B737 MAX aircraft which was further amended in relation to the aforementioned settlement with Boeing in August 2020. The agreement with BOC Aviation secures financing of pre-delivery payments of all undelivered aircraft, as well as a sale and leaseback of two aircraft, of which one has already been delivered with the other one expected to be delivered in Q2 2021. The agreement furthermore provides backstop financing in the form of sale and leaseback for the remaining five aircraft.

21. Group entities

The Company held seven subsidiaries at the end of September 2020.

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

* Icelandair Cargo ehf. and Flugfélag Íslands ehf. (Air Iceland Connect) are subsidiaries of Icelandair ehf.

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

Interim Financial Statements of Icelandair Group hf. 30 September 2020 24 Amounts are in USD thousands

Notes, contd.:

22. Investment in associates

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

	Ownership	Carrying amount 30.9.2020	Share of profit/loss in associates 1.1.-30.9.2020	Carrying amount 31.12.2019	Share of profit/loss in associates 1.1.-30.9.2019
Lindarvatn ehf.	50%	13,464	(29)	15,435	(136)
ITF 1 slhf.	29%	5,887	(1,977)	9,009	127
Cabo Verde Airlines	36%	0	0	0	(7,620)
EBK ehf.	25%	1,130	124	1,154	211
Icelandair Hotels *	25%	2,229	(10,392)	0	0
Other investments		165	1	186	(47)
Total investments in associates		22,875	(12,273)	25,784	(7,465)

* Icelandair Hotels is classified as an investment in associates as of 3 April 2020. With the sale of a 75% share of Icelandair Hotels, the Group capitalized goodwill amounting to USD 7.1 million for the remaining 25% share. The total goodwill of Icelandair Hotel has been impaired through share of loss of associates (see note 6).

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

23. Ratios

The Group's primary ratios are specified as follows:

	30.9.2020	31.12.2019
Current ratio	0.82	0.86
Equity ratio	0.26	0.29
Intrinsic value of share capital	1.38	10.92

24. General government measures

Changes in legislation benefiting the Group and agreements to maintain minimum flights are as follows:

Some entities within the Group fulfill the requirements of Icelandic Act No. 50/2020, whereby they can apply for subsidies of salary cost during employees' notice periods. These entities are in the process of applying for such payments. The total amount of the reduction in salary cost under this legislation is still uncertain and is mainly a function of which groups of employees will be part of the application, and the timing and volume of rehires while the program is in effect. The Group estimates that the subsidies will amount to no less than USD 27.8 million which has been accounted for in Q2 and Q3 2020 according to IAS 20 net of related expenses. The program may entitle the Company to further subsidies of salary cost in Q4 2020.

At the outset of the COVID-19 pandemic the Group and the Icelandic Government entered into agreements whereby Icelandair committed to maintain a certain number of domestic and international flights per week to ensure minimum passenger flight transportation to and from Iceland. Under these agreements, the Group received payments from the Icelandic Government which have been accounted for as other revenue of USD 2.0 million.

From the end of March 2020 and until the end of May 2020, the employment ratio of the vast majority of employees was significantly reduced. During this time the affected employees were eligible for special unemployment benefits to make up for the drop in salary income. This special unemployment benefit program was funded through the national social security system, payable directly to the affected employees and is thus not accounted for in the Group's financial statements.

Interim Financial Statements of Icelandair Group hf. 30 September 2020 25 Amounts are in USD thousands

Notes, contd.:

24. General government measures, contd.:

On 18 March 2020 ISAVIA, the operator of Keflavík Int'l Airport, notified all airlines operating year-round flights from Keflavík that the company would apply a temporary 100% discount to airport service fee due to the pandemic. The discount was applied from 13 March until 31 July and amounts to USD 2.6 million.

A government guaranteed credit facility was approved by the Icelandic Parliament on 4 September 2020. The credit facility, now formally in place, is in the amount of USD 120 million 90% of which are guaranteed by the government.

25. Events after the reporting period

On 7 October 2020, Group reached an agreement regarding the sale of three Boeing 757-200 aircraft. The final documentation is expected to be completed in the upcoming weeks. Subsequently, the aircraft will be converted into cargo aircraft. The net sale price of the three aircraft is approximately USD 21 million which is USD 2-3 million above book value. Two of the aircraft were manufactured in 1994 and one in 2000.

In addition to the sale, the Group has resolved to retire four additional B757-200 aircraft in the coming weeks, which is in line with the Group's gradual phase-out plan of the B757-200. These aircraft will be put into part-out programs, whereby some parts will be utilized for the Group's remaining fleet of B757-200s and some parts will be sold. The airframes will be recycled to the extent possible. Following the sale and retirement as described the Group's total number of B757-200 will be reduced by seven to a total of 15 aircraft.

26. Restatement of comparison amounts

Travel and other employee expenses have been restated from Salaries and salary related expenses to Other operating expenses. Use of leased aircraft engines have been restated from Depreciation to Aviation expenses.

Comparison amounts for the year 2019 were restated as follows:

	2019 Q3 as reported	2019 Q3 restated	2019 YTD as reported	2019 YTD restated
Statement of Comprehensive Income				
Salaries and salary related expenses	119,818	102,111	366,848	319,222
Aviation expenses	186,825	191,831	438,122	455,345
Other operating expenses	94,658	112,367	237,129	284,756
Depreciation and amortisation	51,574	46,566	145,828	128,604
Statement of Cash Flows				
Trade and other receivables, change	1,904	(8,096)	(50,307)	(50,307)
Trade and other payables, change	(15,216)	495	43,867	43,867
Interest paid	(6,692)	(12,403)	(28,214)	(28,214)

In addition, Q2 2020 has been restated as follows:

	2020 Q2 as reported	2020 Q2 restated	2020 Q1+Q2 as reported	2020 Q1+Q2 restated
Statement of Comprehensive Income				
Impairment	(7,316)	0	(123,474)	(116,158)
Share of loss of associates, net of tax	(5,017)	(12,333)	(4,319)	(11,635)
Statement of Cash Flows				
Impairment	7,316	0	123,474	116,158
Share in loss of associates	5,017	12,333	4,319	11,635
Trade and other payables, change	(130,377)	(123,312)	96,941	89,876
Acquisition of intangible assets	(7,368)	(303)	(7,709)	(644)

Interim Financial Statements of Icelandair Group hf. 30 September 2020 26 Amounts are in USD thousands

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