Consolidated Financial Statements for the year 2022

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

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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 2022 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 2022

According to the Consolidated Income Statement, loss for the year 2022 amounted to USD 5.8 million. Equity at year end amounted to USD 273.4 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.

2022 was a turnaround year for Icelandair. The Company used its flexibility to rapidly increase capacity to meet the demand recovery in all markets. The revenue performance was strong with record passenger revenue in the second half of the year and significant EBIT improvement year-on-year.

Total operating income more than doubled year-on-year with EBIT amounting to USD 19 million, an improvement of USD 155 million between years. Net loss amounted to USD 5.8 million compared to USD 105 million in 2021.

The passenger flight schedule, as measured in available seat kilometers, more than doubled compared to 2021 and equaled 79% of 2019 levels. The Company carried 3.6 million passengers, 2.2 million more than in 2021. Flights were offered to 51 destinations, compared to 40 in 2021, and three new destinations were added to the network: Raleigh Durham (USA), Rome (Italy) and Nice (France).

The “to” market with Iceland as a destination was Icelandair’s largest market in 2022 and accounted for 41% of total passengers. The successful ramp-up of Icelandair operations has been essential for the recovery of the Icelandic tourism industry and the Icelandic economy during the year. The “from” market, with travel originating in Iceland, accounted for 15% of Icelandair’s total passengers. The “via” market between Europe and N-America accounted for 37% of total passengers compared to 23% in 2021. The domestic operation “within” Iceland accounted for 7% of total passengers.

Icelandair, like other airlines, experienced challenging conditions at airports and issues with supply chains which caused flight disruptions over the summer peak. With its extensive flight schedule, high frequency of flights, and its employees' resourcefulness, Icelandair was in a good position to respond to these challenges.

Fuel prices increased by 77% year-on-year. Fuel costs accounted for 33% of operating expenses compared to 20% in 2021. A larger proportion of the substantially more fuel efficient B737 MAX aircraft within the fleet, in addition to improved load factor, resulted in a 17% reduction of CO_2 emissions per OTK compared to 2021.

Fleet renewal of passenger aircraft continued in 2022. Icelandair took delivery of seven B737 MAX aircraft bringing the total number of B737 MAX aircraft in service to sixteen. Working towards a sustainable future in aviation is an important emphasis for Icelandair. The steep fleet renewal showcases its commitment towards the ambitious goal of reducing carbon emissions. The Company plans to take delivery of four B737 MAX aircraft before year-end 2023, bringing the total number of B737 MAX aircraft in service to twenty.

The cargo operation was profitable in 2022. Freight carried decreased year-on-year by 7%. The main reason is less demand for imports and export following the invasion of Ukraine which led to an economic contraction in Europe. The Company is adding two B767-300 wide-body aircraft to its fleet and building a airfreight hub in Iceland. The new B767-300 fleet, which has more range and carries more freight than the B757 freighters it has operated in recent years, will operate to Liege in Belgium, Los Angeles, New York, and Chicago. The first B767 entered service last December, and the second aircraft will be added in Q1 2023.

The leasing operation improved significantly in 2022, with an increased scope of operations for its main long-term customers with the addition of as well as new business. Sold block hours increased by 9% and the profitability improved between years.

Icelandair Group’s full-time equivalents (FTE) in 2022 were 3,045, on average, 958 more than on average in 2021.

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

Operations in the year 2022, contd.:

Icelandair's balance sheet is healthy at year-end 2022, with an equity ratio of 19.4% and a strong liquidity position with cash, cash equivalents, and marketable securities amounting to USD 266 million. Additionally, the Company had undrawn committed credit lines in the amount of USD 52 million bringing total liquidity to USD 318 million.

The prospects for Icelandair's operation are favorable for 2023. The passenger flight schedule will be the largest in the Company's history, with 54 destinations, 785 connections within the network, and four new destinations. The near-term booking flow is strong, and booking patterns are gradually returning to normal. 40 aircraft will be utilized in the route network in summer 2023, five more than in summer 2022. The development of Keflavik as an airfraight hub will continue and the leasing projects are expected to continue to deliver strong results.

The Company had an accumulated deficit at year-end, accordingly the Board of Directors proposes no dividend payment to shareholders for the year 2022.

Share capital and Articles of Association

The nominal value of Icelandair Group's issued share capital at year-end was ISK 41.1 billion up from ISK 35.96 billion at the end of 2021. 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 3 March 2022 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 2022 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.

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.

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

Share capital and Articles of Association, contd.:

The number of shareholders at year-end 2022 was 15,896 an increase of 609 during the year. At 31 December 2022 the 10 largest shareholders were:

Name	Shares in ISK thousand	Shares in %
Blue Issuer Designated Activity Company	7,073,868	17.20
Íslandsbanki hf.	1,529,782	3.72
Arion banki hf.	1,388,691	3.38
Brú Lífeyrissjóður starfsmanna sveitarfélaga	1,311,222	3.19
Gildi - lífeyrissjóður	1,266,767	3.08
Lífeyrissjóður starfsmanna ríkisins A-deild	1,181,777	2.87
Almenni lífeyrissjóðurinn	933,984	2.27
Sólvöllur ehf.	663,704	1.61
The Miri Strategic Emerging Market Fund	577,800	1.41
Landsbréf - Úrvalsbréf hs.	552,331	1.34
	16,479,926	40.08
Other shareholders	24,640,321	59.92
	41,120,247	100.00

Further information on matters related to share capital is disclosed in note 26. Additional information on shareholders is provided on the Company's website www.icelandairgroup.com.

Corporate Governance

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

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

Information on matters related to financial risk management is disclosed in note 34. 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. The Company’s sustainability data is presented in accordance with Nasdaq's ESG Reporting Guide 2.0 (Environment, Society and Governance). The Company has identified material issues relating to the ESG framework that are monitored during the year.

Icelandair Group’s sustainability strategy is based on the United Nations’ Sustainable Development Goals (SDGs) and four goals have been chosen as key focus areas. These are climate action, gender equality, responsible consumption and production and decent work and economic growth.

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

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

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements for the year ended 31 December 2022 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 2022 identified as “549300UMI5MBLZSXGL15-2022-12-31-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 2022, its assets, liabilities and consolidated financial position as at 31 December 2022 and its consolidated cash flows for the year 2022.

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

The Board of Directors and the CEO have today discussed the consolidated financial statements of Icelandair Group hf. for the year 2022 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, 2 February 2023.

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, 2022, 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, 2022, 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 statement of profit or loss. 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: • Testing relevant IT controls for the revenue accounting system. • Testing a sample of key controls in the revenue accounting process. • Testing all manual journal entires posted in passenger revenue accounts. • Testing inputs 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 of changes to the methodology. • Tested reconciliation between the revenue accounting system and the financial system. • 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 12 "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 all new purchase and lease agreements for engines in the year 2022 and evaluated if accounting for new engines was appropriate and that initial recognition is inn 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.

Independent Auditor's Report, contd.:

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements, cont.:

- 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.

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 2022 with the file name "549300UMI5MBLZSXGL15-2022-12-31-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 2022 with the file name "549300UMI5MBLZSXGL15-2022-12-31-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, 2 February 2023.

KPMG ehf.

Hjördís Ýr Ólafsdóttir

Matthías Þ. Óskarsson

Consolidated Income Statement and other Comprehensive Income for the year 2022

	Notes	2022	2021
Operating income			
Transport revenue	7	1,130,252	453,868
Aircraft and aircrew lease		58,510	42,676
Other operating revenue	7	76,356	88,369
		1,265,118	584,913
Operating expenses			
Salaries and salary related expenses		308,591	215,485
Aviation expenses		570,630	235,452
Other operating expenses		248,171	156,779
	8	1,127,392	607,716
Operating profit (loss) before depreciation and amortisation (EBITDA)		137,726	(22,803)
Depreciation and amortisation	10	(118,875)	(113,136)
Operating profit (loss) (EBIT)		18,851	(135,939)
Finance income		8,846	13,242
Finance cost		(32,595)	(20,779)
Fair value changes		(580)	8,182
Net finance (cost) income	11	(24,329)	645
Gain on sale of associate/subsidiary	19	3,807	9,083
Share of gain (loss) of associates	19	1,850	(3,848)
Profit (loss) before tax (EBT)		179	(130,059)
Income tax	21	(5,998)	25,263
Loss for the year		(5,819)	(104,796)
Other comprehensive income (loss)			
Items that are or may be reclassified to profit or loss			
Currency translation differences		(10,154)	(2,203)
Net loss on hedge of investment, net of tax	34	(3,898)	(1,238)
Cash flow hedges - effective portion of changes in fair value, net of tax	34	(20,025)	12,412
Cash flow hedges - reclassified to profit or loss		19,751	4,400
Other comprehensive (loss) income for the year		(14,326)	13,371
Total comprehensive loss for the year		(20,145)	(91,425)
Owners of the Company		(8,461)	(104,298)
Non-controlling interests		2,642	(498)
Loss for the year		(5,819)	(104,796)
Total Comprehensive loss attributable to:			
Owners of the Company		(23,260)	(90,928)
Non-controlling interests		3,115	(497)
Total comprehensive loss for the year		(20,145)	(91,425)
Earnings per share:			
Earnings per share in US cent per share	27	(0.02)	(0.33)

The notes on pages 15 to 52 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2022 11 Amounts are in USD thousand

Consolidated Statement of Financial Position
as at 31 December 2022

	Notes	2022	2021
Assets:			
Operating assets	12-15	505,588	391,293
Right-of-use assets	16	318,971	224,794
Intangible assets and goodwill	17-18	55,202	55,614
Investments in associates	19	11,903	11,592
Receivables and deposits	20	17,668	18,987
Deferred tax asset	21	55,593	60,647
Non-current assets		964,925	762,927
Inventories	22	22,491	24,398
Derivatives used for hedging	34	2,029	2,853
Trade and other receivables	24	155,317	118,417
Marketable securities	23	42,159	58,197
Cash and cash equivalents	25	224,252	204,767
Current assets		446,248	408,632
Total assets		1,411,173	1,171,559
Equity:			
Share capital		310,973	272,204
Share premium		0	34,178
Reserves		19,450	24,116
Accumulated deficit		(57,914)	(105,876)
Equity attributable to equity holders of the Company	26	272,509	224,622
Non-controlling interests		877	(2,238)
Total equity		273,386	222,384
Liabilities:			
Loans and borrowings	28	207,264	222,139
Lease liabilities	29	296,692	212,042
Payables	31	33,947	23,384
Non-current liabilities		537,903	457,565
Loans and borrowings	28	48,453	35,646
Lease liabilities	29	45,463	33,617
Warrants	30	0	18,395
Derivatives used for hedging	34	820	1,136
Trade and other payables	32	201,789	143,736
Deferred income	33	303,359	259,080
Current liabilities		599,884	491,610
Total liabilities		1,137,787	949,175
Total equity and liabilities		1,411,173	1,171,559

The notes on pages 15 to 52 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2022 12 Amounts are in USD thousand

Consolidated Statement of Changes in Equity
for the year 2022

	Attributable to equity holders of the Company								
			Reserves						
	Share capital	Share premium	Hedging	Translation reserve	Other reserves	Accumulated deficit	Total	Non-controlling interest	Total equity
2021									
Equity 1 January 2021	212,969	13,208	(16,720)	8,411	16,682	0	234,550	(1,741)	232,809
Shares issued	59,235	20,970					80,205		80,205
Warrants issued						(3,300)	(3,300)		(3,300)
Warrants exercised						4,095	4,095		4,095
Loss for the year						(104,299)	(104,299)	(497)	(104,796)
Currency translation differences				(2,203)			(2,203)		(2,203)
Net loss on hedge of investment, net of tax				(1,238)			(1,238)		(1,238)
Effective portion of changes in fair value of cash flow hedges, net of tax			12,412				12,412		12,412
Cash flow hedges, reclassified to profit or loss			4,400				4,400		4,400
Effects of profit or loss of subsidiaries and associates					2,372	(2,372)	0		0
Equity 31 December 2021	272,204	34,178	92	4,970	19,054	(105,876)	224,622	(2,238)	222,384
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

The notes on pages 15 to 52 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2022 13 Amounts are in USD thousands

Consolidated Statement of Cash Flows
for the year 2022

	Notes	2022	2021
Cash flows from operating activities:			
Loss for the year		(5,819)	(104,796)
Adjustments for:			
Depreciation and amortisation	10	118,875	113,136
Expensed deferred cost		19,210	15,946
Net finance cost	11	23,749	7,537
Changes in fair value		580	(8,182)
Gain on sale of operating assets		(2,223)	(8,243)
Gain on sale of a subsidiary/associate	7, 20	(3,807)	(9,083)
Share in loss of associates	19	(1,850)	3,848
Income tax	21	5,998	(25,263)
		154,713	(15,100)
Changes in:			
Inventories	22	3,020	(1,290)
Trade and other receivables	24	(37,968)	(21,897)
Trade and other payables	32	47,060	29,127
Deferred income		44,203	77,298
Cash generated from (used in) operating activities		56,315	83,238
Interest received		4,428	688
Interest paid		(24,837)	(18,214)
Net cash from (used in) operating activities		190,619	50,612
Cash flows from (to) investing activities:			
Acquisition of operating assets	12	(311,556)	(170,101)
Proceeds from sale of operating assets		112,218	197,036
Acquisition of intangible assets	17	(422)	(293)
Deferred cost, change		(2,530)	(13,683)
Proceeds from sale of a subsidiary		0	6,418
Investment in associates		(717)	(2,290)
Non-current receivables, change		7,928	4,346
Marketable securities, change		16,038	(16,803)
Net cash from (used in) investing activities		(179,041)	4,630
Cash flows from financing activities:			
Shares issued	26	52,386	80,205
Proceeds from loans and borrowings	28	42,002	3,229
Repayment of loans and borrowings	28	(47,799)	(20,365)
Repayment of lease liabilities	29	(37,518)	(30,255)
Net cash from (used in) financing activities		9,071	32,814
Change in cash and cash equivalents		20,649	88,056
Effect of exchange rate fluctuations on cash held		(1,164)	(946)
Cash and cash equivalents at beginning of the year		204,767	117,657
Cash and cash equivalents at 31 December	25	224,252	204,767

The notes on pages 15 to 52 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2022 14 Amounts are in USD thousand

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 2022 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 2 February 2023.

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 43.

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 significant risk of resulting in a material adjustment in the year ending 31 December 2022 is included in the following notes:

Note 18 - 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.

Notes, contd.:

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

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The Group 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 2023 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 as off beginning of year 2022.
Geographic disaggregation of revenue is based on point of sale.

Geographic segments for the year 2022

	North America	Europe	Iceland	Other	Total
Transport revenue	595,910	251,544	262,480	20,317	1,130,252
Aircraft and aircrew lease	14,830	5,339	3,937	34,405	58,510
Other operating revenue	19,342	10,013	46,399	602	76,356
Total revenue	630,082	266,896	312,816	55,324	1,265,118
Total revenue %	50%	21%	25%	4%	100%

Geographic segments for year 2021

	North America	Europe	Iceland	Other	Total
Transport revenue	178,828	134,243	135,584	5,213	453,868
Aircraft and aircrew lease	2,694	0	8,422	31,560	42,676
Other operating revenue	13,520	18,130	56,475	243	88,369
Total revenue	195,042	152,373	200,481	37,016	584,913
Total revenue %	33%	26%	34%	6%	100%

Consolidated Financial Statements of Icelandair Group hf. 2022 16 Amounts are in USD thousand

Notes, contd.:

7. Operating income

Transport revenue is specified as follows:	2022	2021
Passenger revenue	975,332	333,785
Ancillary revenue	72,225	32,697
Cargo and mail	82,695	87,386
Total transport revenue	1,130,252	453,868
Other operating revenue is specified as follows:		
Sale at airports and hotels	7,713	4,763
Revenue from tourism	31,064	41,966
Aircraft and cargo handling services	14,861	20,405
Maintenance revenue	2,668	2,887
Gain on sale of operating assets	2,228	8,243
Other operating revenue	17,822	10,105
Total other operating revenue	76,356	88,369

8. Operating expenses

Salaries and other personnel expenses are specified as follows:	2022	2021
Salaries	238,591	168,888
Contributions to pension funds	38,106	27,097
Other salary-related expenses	31,894	19,500
Total salaries and salary related expenses	308,591	215,485
Average number of full time equivalents	3,045	2,087
Full time equivalents at period end	3,023	2,393
Gender ratio for employees (male / female)	54/46	55/45
Aviation expenses are specified as follows:		
Aircraft fuel	374,490	119,886
Aircraft lease	1,757	705
Aircraft handling, landing and navigation	115,392	65,079
Aircraft maintenance expenses	78,991	49,783
Total aviation expenses	570,630	235,452
Other operating expenses are specified as follows:		
Operating cost of real estate and fixtures	8,606	5,785
Communication	26,599	21,423
Advertising	24,458	13,284
Booking fees and commission expenses	50,796	19,785
Cost of goods sold	6,021	2,958
Customer services	45,457	13,908
Travel and other employee expenses	48,919	23,590
Tourism expenses	17,877	26,043
Allowance for bad debt	(9,790)	2,339
Other operating expenses	29,228	27,664
Total other operating expenses	248,171	156,779

Consolidated Financial Statements of Icelandair Group hf. 2022 17 Amounts are in USD thousand

Notes, contd.:

9. Auditor's fee

Auditor's fee are specified as follows:	Group auditors 2022	Group auditors 2021	Other auditors 2022	Other auditors 2021
Audit	427	412	41	39
Other services	59	54	0	0
	486	466	41	39

10. Depreciation and amortisation

The depreciation and amortisation charge in profit or loss is specified as follows:	2022	2021
Depreciation of operating assets, see note 12	80,145	88,305
Depreciation of right-of-use assets, see note 16	37,930	22,477
Amortisation of intangible assets, see note 17	800	2,354
Depreciation and amortisation recognized in profit or loss	118,875	113,136

11. Finance income and finance cost

Finance income and finance cost are specified as follows:	2022	2021
Interest income on cash and cash equivalents	6,090	321
Interest income on lease receivables	260	276
Other interest income	2,496	3,723
Net currency exchange gain	0	8,922
Finance income total	8,846	13,242
Interest expense on loans and borrowings	11,495	8,750
Interest expenses on lease liabilities	13,619	7,299
Other interest expenses	1,987	4,730
Net currency exchange loss	5,494	0
Finance cost total	32,595	20,779
Changes in fair value of warrants, see note 30	(580)	8,182
Net finance (cost) income	(24,329)	645

12. Operating assets

Operating assets are specified as follows:

Cost	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Balance at 1 January 2021	774,243	91,285	88,340	953,868
Additions	168,993	77	1,031	170,101
Sales and disposals	(239,051)	(85)	(1,810)	(240,946)
Effects of movements in exchange rates	(133)	(2,256)	(152)	(2,541)
Balance at 31 December 2021	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

Consolidated Financial Statements of Icelandair Group hf. 2022 18 Amounts are in USD thousand

Notes, contd.:

12. Operating assets, contd.:

Depreciation and impairment	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Balance at 1 January 2021	395,265	21,752	38,413	455,430
Depreciation	75,951	3,660	8,694	88,305
Sales and disposals	(52,240)	(43)	(1,410)	(53,693)
Assets classified as held for sale	0	0	(9)	(9)
Effects of movements in exchange rates	(69)	(647)	(128)	(844)
Balance at 31 December 2021	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
Carrying amounts				
At 1 January 2021	378,978	69,533	49,927	498,438
At 31 December 2021	285,145	64,299	41,849	391,293
At 31 December 2022	398,193	65,908	41,487	505,588
Depreciation ratios	4-20%	2-6%	5-33%	

Acquisition of operating assets in 2022 amounted to USD 311.6 million (2021: USD 170.1 million) therof overhaul of own engines and aircraft spare parts in the amount of USD 102.2 million (2021: USD 40.9 million). See further in note 36.

13. 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 236.5 million at year-end 2022 (2021: USD 238.6 million). The Group owns 32 aircraft including 17 Boeing 757, 4 Boeing 767 and 5 Boeing 737 MAX. At year-end, 6 aircraft were unencumbered.

14. 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	
	2022	2021	2022	2021
Boeing - 26 / 26 aircraft	650,797	572,000	339,505	231,666
Other - 6 / 6 aircraft	54,330	54,300	33,003	32,319
Flight equipment	82,956	79,719	25,685	21,160
Total aircraft and flight equipment	788,083	706,019	398,193	285,145

15. Insurance value of buildings and other operating assets

The principal buildings owned by the Group are the following:

2022	Maintenance hangars	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

Consolidated Financial Statements of Icelandair Group hf. 2022 19 Amounts are in USD thousand

Notes, contd.:

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

2021	Maintenance hangers	Staff apartments	Office buildings	Other buildings	Under construction	Total
Official assessment value	38,256	6,705	14,461	12,570	0	71,992
Insurance value	75,524	15,272	39,885	39,112	0	169,793
Carrying amounts	25,230	4,452	14,824	19,704	89	64,299
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 2022 amounted to USD 14.7 million (2021: USD 14.6 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 58.3 million at year-end 2022 (2021: USD 60.6 million). The carrying amount at the same time was USD 41.5 million (2021: USD 41.8 million).

16. Right of use assets

	Land & Real Estate	Aircraft	Other	Total
Balance at 1 January 2021	10,785	108,604	401	119,790
Adjustments	(993)	481	(181)	(693)
Adjustments for indexed leases	565	(5,282)	14	(4,703)
New or renewed leases	805	131,598	243	132,646
Depreciation	(2,321)	(19,833)	(323)	(22,477)
Reclassified to assets held for sale	150	0	126	276
Currency translation adjustment	(44)	0	(1)	(45)
Balance at 31 December 2021	8,947	215,568	279	224,794
Adjustments	(89)	(43)	(164)	(296)
Adjustments for indexed leases	762	9,494	47	10,303
New or renewed leases	1,666	119,850	936	122,452
Depreciation	(2,151)	(35,438)	(341)	(37,930)
Currency translation adjustment	(377)	26	(1)	(352)
Balance at 31 December 2022	8,758	309,457	756	318,971

17. Intangible assets and goodwill

Intangible assets and goodwill are specified as follows:

Cost	Goodwill	Trademarks and slots	Other intangibles	Total
Balance at 1 January 2021	57,902	34,565	12,458	104,925
Additions	0	0	293	293
Disposals	0	0	(1,466)	(1,466)
Assets classified as held for sale	(1,870)	0	(4,786)	(6,656)
Effects of movements in exchange rates	(304)	0	(6)	(310)
Balance at 31 December 2021	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

Consolidated Financial Statements of Icelandair Group hf. 2022 20 Amounts are in USD thousand

Notes, contd.:

17. Intangible assets and goodwill, contd.:

Amortisation and impairment losses	Goodwill	Trademarks and slots	Other intangibles	Total
Balance at 1 January 2021	33,308	2,605	8,751	44,664
Amortisation	0	0	2,354	2,354
Disposals	0	0	(660)	(660)
Assets classified as held for sale	0	0	(5,178)	(5,178)
Effects of movements in exchange rates	0	0	(8)	(8)
Balance at 31 December 2021	33,308	2,605	5,259	41,172
Amortisation	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
Carrying amounts				
At 1 January 2021	24,594	31,960	3,707	60,261
At 31 December 2021	22,420	31,960	1,234	55,614
At 31 December 2022	22,420	31,960	822	55,202

18. 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 acquisition dates. Goodwill and other intangible assets with indefinite life are specified as follows:

	2022	2021
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	
	2022	2021	2022	2021
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. After some turbulent years heavily affected by the pandemic 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 the 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, salary increase in Iceland historically high fuel price and increasing emissions cost. Icelandair will expect to reach 2019 production level in 2025 with gradual growth beyond 2025 with increased fleet plan. 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.

Consolidated Financial Statements of Icelandair Group hf. 2022 21 Amounts are in USD thousand

Notes, contd.:

18. 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:

2022	**Passenger and cargo operations**	**Other Group entities ***
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	21.2%	2.9%
WACC	10.3%	13.6%
Debt leverage	62.6%	64.8%
Pre-tax interest rate for debt	6.6%	6.9%
2021		
Long-term growth rate	2.1%	2.1%
Revenue growth:		
Weighted average 2021/2020	112.7%	73.4%
2021- 2026	24.5%	21.0%
Forecasted EBIT growth 2022-2026	20.6%	4.1%
WACC	9.3%	16.6%
Debt leverage	62.9%	64.6%
Pre-tax interest rate for debt	4.6%	4.8%

* 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.

19. Investment in associates

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

		2022		**2021**	
	Ownership	**Carrying amount**	**Share of profit/loss in associates**	**Carrying amount**	**Share of profit/loss in associates**
EBK ehf.	25%	1,154	233	1,017	(171)
ÍTF 1 slhf.	29%	9,009	1,757	7,323	216
Lindarvatn ehf.	50%	1,566	(1,381)	3,095	26
Berjaya Iceland Hotels	0%	0	0	0	(3,903)
Other investments		174	1,241	157	(16)
Total investments in associates		11,903	1,850	11,592	(3,848)

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

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 a full-year operational potential. The lifespan of the fund is until end of 2023 with a possible 1 year extension each time until 2025 and the aim 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.

Consolidated Financial Statements of Icelandair Group hf. 2022 22 Amounts are in USD thousand

Notes, contd.:

19. Investment in associates, contd.:

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. At the end of year 2022 these guarantees had all but one been relinquished. The Company has a back-to-back guarantee from the hotel company owner Berjaya Land Berhad. Due to the release of the guarantees, Icelandair recognized USD 1 million in revenue (Gain on sale of associate/subsidiary) during the year. The remaining reserve against the remaining guarantee is USD 1 million.

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 have now been realized. Revenue in the amount of aproximately USD 2.8 million was realized in 2022 related to the sale (Gain on sale of associate/subsidiary).

20. 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:	**2022**	**2021**
Loans, effective interest rate 6% / 6%	42	50
Lease receivable, interest rate 5%	5,763	7,523
Security deposits	18,047	14,414
Prepayments on aircraft purchases	0	11,390
	23,852	33,377
Current maturities	(6,184)	(14,390)
Non-current receivables and deposits total	17,668	18,987
Contractual repayments mature as follows:		
Maturities in 2022	-	14,390
Maturities in 2023	6,184	3,357
Maturities in 2024	3,193	3,557
Maturities in 2025	564	575
Maturities in 2026	543	519
Maturities in 2027	530	507
Subsequent	12,838	10,472
Total non-current receivables and deposits, including current maturities	23,852	33,377

Non-current receivables and deposits denominated in currencies other than the functional currency comprise USD 2.7 million (2021: USD 2.3 million).

Consolidated Financial Statements of Icelandair Group hf. 2022 23 Amounts are in USD thousand

Notes, contd.:

21. Income taxes

(i) Amounts recognized in profit or loss

Deferred tax expense	2022	2021
Origination and reversal of temporary differences	(748)	(27,461)
Exchange rate difference	6,746	2,198
Total tax expense recognized in profit or loss	5,998	(25,263)

(ii) Amounts recognized in other comprehensive income

	2022	2021
Effective portion of changes in fair value of cash flow hedge	(68)	3,911
Exchange rate difference	(975)	(309)
Total tax recognized in other comprehensive income	(1,043)	3,602

(iii) Reconciliation of effective tax rate

	2022		2021	
Profit (loss) before tax		179		(130,059)
Income tax according to current tax rate	20.1%	36	20.0%	(26,012)
Non-deductible expenses	27.4%	49	(0.1%)	75
Warrants	64.8%	116	1.3%	(1,636)
Gain on sale of a subsidiary/associate	(425.1%)	(761)	1.4%	(1,817)
Share of loss of associates	(206.7%)	(370)	(0.6%)	770
Exchange rate difference - tax loss carry-forwards	3,905.6%	6,991	(1.3%)	1,689
Exchange rate difference - other	(136.9%)	(245)	(0.4%)	509
Other items	101.7%	182	(0.9%)	1,159
Effective tax rate	3,350.8%	5,998	19.4%	(25,263)

(iv) Recognized deferred tax liabilities

Deferred tax liabilities are specified as follows:	2022	2021
Deferred tax liabilities 1 January	(60,647)	(38,836)
Deferred tax recognized in profit or loss	5,998	(25,263)
Income tax recognized in other comprehensive income	(1,043)	3,602
Exchange rate difference	99	(291)
Deferred tax liabilities transferred to assets held for sale	0	141
Deferred tax (assets) liabilities 31 December	(55,593)	(60,647)

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

	Assets		Liabilities		Net	
	2022	2021	2022	2021	2022	2021
Operating assets	0	0	(27,114)	(29,102)	(27,114)	(29,102)
Intangible assets	0	0	(58)	(87)	(58)	(87)
Derivatives	46	0	0	(22)	46	(22)
Trade receivables	336	2,513	0	0	336	2,513
Right-of-use assets	0	0	(85,816)	(67,465)	(85,816)	(67,465)
Lease claim	0	0	(6,971)	(2,516)	(6,971)	(2,516)
Lease liabilities	94,155	71,528	0	0	94,155	71,528
Tax loss carry-forwards	78,556	85,738	0	0	78,556	85,738
Other items	2,459	60		0	2,459	60
Total	175,552	159,839	(119,959)	(99,192)	55,593	60,647

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Notes, contd.:

21. Income taxes, contd.:

(vi) Movements in deferred tax balance during the year

2022	1 January	Recognized in profit or loss	Exchange rate difference	Recognized in other comprehensive income and equity	Transferred to asset held for sale	31 December
Operating assets	(29,102)	1,825	163			(27,114)
Intangible assets	(87)	29				(58)
Derivatives	(22)			68		46
Trade receivables	2,513	(2,178)	1			336
Right-of-use assets	(67,465)	(18,355)	4			(85,816)
Lease claim	(2,516)	(4,455)				(6,971)
Lease liabilities	71,528	22,631	(4)			94,155
Tax loss carry-forwards	85,738	(6,196)	(986)			78,556
Other items	60	701	723	975		2,459
Total	60,647	(5,998)	(99)	1,043	0	55,593

2021	1 January	Recognized in profit or loss	Exchange rate difference	Recognized in other comprehensive income and equity	Transferred to asset held for sale	31 December
Operating assets	(45,954)	16,798	189	0	(135)	(29,102)
Intangible assets	(259)	172	0	0	0	(87)
Derivatives	3,889	0	0	(3,911)	0	(22)
Trade receivables	1,901	614	(47)	0	45	2,513
Tax loss carry-forwards	74,193	11,447	126	0	(28)	85,738
Operating lease	1,765	(219)	24	0	(23)	1,547
Other items	3,301	(3,549)	(1)	309	0	60
	38,836	25,263	291	(3,602)	(141)	60,647

Tax loss carry-forwards are specified as follows:	2022	2021
Tax loss from 2018 expire 2028	90,552	98,689
Tax loss from 2019 expire 2029	42,435	46,248
Tax loss from 2020 expire 2030	170,994	186,359
Tax loss from 2021 expire 2031	85,031	97,393
Tax loss from 2022 expire 2032	3,770	-
Tax loss carry-forwards total	392,782	428,689

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.

22. Inventories

Inventories are specified as follows:	2022	2021
Spare parts	18,826	20,642
Other inventories	3,665	3,756
Inventories total	22,491	24,398

23. Marketable securities

At year-end marketable securities amounted to USD 42.2 million (2021: USD 58.2 million). Marketable securities consist of government, bank and corporate bonds, term deposits 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.

Consolidated Financial Statements of Icelandair Group hf. 2022 25 Amounts are in USD thousand

Notes, contd.:

24. Trade and other receivables

Trade and other receivables are specified as follows:

	2022	2021
Trade receivables	51,322	47,632
Prepayments	21,486	17,126
Restricted cash	30,796	20,187
Lease receivables	3,537	2,623
Receivables due from related parties	18,345	16,174
Other receivables	29,831	14,675
Trade and other receivables total	155,317	118,417

At year-end trade receivables are presented net of an allowance for doubtful accounts of USD 6.3 million (2021: USD 17.6 million).

Prepayment and prepaid expenses which relate to subsequent periods amounted to USD 21.5 million (2021: USD 17.1 million) at year-end. The prepayments consist mainly of prepaid contractual obligations, insurance premiums, software licenses and leases.

Restricted cash is held in bank accounts pledged against credit cards 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.

25. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	2022	2021
Fixed term bank deposits	34,875	30,021
Bank deposits	188,994	174,481
Cash on hand	383	265
Cash and cash equivalents total	224,252	204,767

26. 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 issued new shares in the nominal amount of ISK 5,161,815 thousand in 2022. A total of 1,414,773,617 shares were sold to the Blue Issuer Designated Activity Company, a subsidiary of Bain Capital, and 3,747,041,800 shares were issued in relation to the exercise of warrant classes ICEAIRW180222 and ICEAIRW120822 (see note 30). All the new shares were issued within the same share class as all existing shares in Icelandair Group.

The Company held no treasury shares at year-end 2022.

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.

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.

Consolidated Financial Statements of Icelandair Group hf. 2022 26 Amounts are in USD thousand

Notes, contd.:

26. Equity, contd.:

Dividend

No dividend was paid to shareholders in 2022 and 2021.

The Board of Directors proposes no dividend payment to shareholders in 2023 for the year 2022 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.”

27. Earnings per share

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

Basic earnings per share:

	2022	2021
Loss for the year attributable to equity holders of the parent company	(8,461)	(104,298)
Weighted average number of shares for the year	38,807,390	31,605,606
Basic earnings per share in US cent per share	(0.02)	(0.33)
Diluted earnings per share in US cent per share	(0.02)	(0.33)

28. 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 2021	263,588	263,588
Proceeds from loans and borrowings	3,098	3,098
Proceeds from loans and borrowings on assets held for sale	160	160
Transaction cost of long-term loans and borrowings	(29)	(29)
Repayment of borrowings	(20,365)	(20,365)
Cash flows related to financing activities	(17,136)	(17,136)
Proceeds from other payables	16,726	16,726
Prepayment of borrowing assets held for sale	0	0
Accrued interest added to the loans	536	536
Financing activities without cash flows	16,673	16,673
Currency exchange difference	(5,702)	(5,702)
Expensed borrowing cost recognized in finance cost	362	362
Other liability related changes	(5,340)	(5,340)
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 effective interests	532	532
Other liability related changes	(5,985)	(5,985)
Total interest-bearing debt 31 December 2022	255,717	255,717

Consolidated Financial Statements of Icelandair Group hf. 2022 27 Amounts are in USD thousand

Notes, contd.:

28. Loans and borrowings, contd.:

Loans and borrowings are specified as follows:

Non-current loans and borrowings:	2022	2021
Secured bank loans	236,516	238,612
Unsecured loans	19,201	19,173
Total loans and borrowings	255,717	257,785
Current maturities	(48,453)	(35,646)
Total non-current loans and borrowings	207,264	222,139
Current loans and borrowings:		
Current maturities of non-current liabilities	48,453	35,646
Total current loans and borrowings	48,453	35,646
Total loans and borrowings	255,717	257,785

Terms and debt repayment schedule:	Currency	Nominal interest rates year end 2022	Year of maturity	Total remaining balance 2022	2021
Secured bank loans	USD	5.9%	2023-2028	190,677	180,115
Secured bank loans	EUR	2.7%	2023-2028	45,839	58,497
Unsecured loans	ISK	4.7%	2023-2030	19,201	19,173
Total interest bearing liabilities				255,717	257,785

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 2022.

Additionally, the Company had access to a government guaranteed credit facility in the amount of USD 120 million. The facility, which was originally available for draw-down until mid-September 2022, was terminated by the Company on 7 February 2022 having never been drawn on.

Repayments of loans and borrowings are specified as follows:	2022	2021
Repayments in 2022	-	35,646
Repayments in 2023	48,453	46,847
Repayments in 2024	58,501	58,541
Repayments in 2025	36,985	34,605
Repayments in 2026	27,852	25,328
Repayments in 2027	15,096	12,043
Subsequent repayments	68,830	44,775
Total loans and borrowings	255,717	257,785

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Notes, contd.:

28. Loans 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. According to the restructured terms, that took effect at the end of Q3 2020, the equity ratio was the Group's primary financial covenant in the following quarters and was to 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. Following the termination of the government guaranteed facility the amendment to the minimum equity ratio covenants with two out of three major lenders was extended and was in the range of 10-12,5% at the end of each quarter in 2022. The minimum range will be 10-15% at the end of each quarter in 2023. Additionally, one of the aforementioned lenders introduced a temporary minimum liquidity covenant in effect until end of year 2023.

29. 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:	2022	2021
Balance at 1 January	245,659	146,597
Adjustments	(2,701)	513
Adjustments for indexed leases	10,458	(4,696)
New or renewed leases	127,108	133,858
Payment of lease liabilities	(50,533)	(37,554)
Interest of lease liabilities	13,015	7,299
Reclassified to liabilities held for sale	0	226
Currency translation adjustment	(851)	(584)
Balance at 31 December	342,155	245,659
Current maturities	(45,463)	(33,617)
Total non-current lease liabilities	296,692	212,042

	Rate	Land & Real Estate	Aircraft	Other	Total
Lease liabilities in USD	4.40%	89	331,525	70	331,684
Lease liabilities in ISK, indexed	4.17%	8,590	0	655	9,245
Lease liabilities in GBP	2.21%	642	0	3	645
Lease liabilities in other currency	4.43%	579	0	2	581
Total lease liabilities		9,900	331,525	730	342,155

Maturity analysis	2022	2021
Repayments in 2022	-	33,617
Repayments in 2023	45,463	31,219
Repayments in 2024	42,890	28,614
Repayments in 2025	41,541	28,003
Repayments in 2026	41,024	26,908
Repayments in 2027	37,550	25,243
Subsequent repayments	133,687	72,055
Total lease liabilities	342,155	245,659

Further lease commitments have been signed for three aircraft. One 767-300 freighter, scheduled for delivery in H1 2023 and two 737 MAX8 aircraft which are scheduled to be delivered in H2 2023. Letter of intent has been signed for two additional aircraft to be delivered in H1 2023. The lease liability for these five aircraft will be approximately USD 125 million.

The expected deliveries of leased aircraft to the Company are shown below:

	H1 2023	H2 2023	Total
Boeing 737 MAX8	2	2	4
Boeing 767-300 Freighter	1	0	1
Total	3	2	5

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Notes, contd.:

30. Warrant liabilities

The warrants are specified as follows:

Warrant liabilities	ICEAIRW 130821	ICEAIRW 180222	ICEAIRW 120822	Bain Capital 120822	Total
Fair value at issuance date	9,129	9,001	9,634	0	27,764
Issued warrants				3,300	3,300
Gain on change in fair value of warrant liability	(5,043)	(997)	(2,077)	(65)	(8,182)
Foreign exchange difference	9	(139)	(154)	(108)	(392)
Exercised warrants	(4,095)	0	0	0	(4,095)
Total warrant liabilities 31.12.2021	0	7,865	7,403	3,127	18,395
Gain on change in fair value of warrant liability	0	(1,795)	2,741	(366)	580
Foreign exchange difference	0	369	(423)	(160)	(214)
Exercised warrants	0	(6,439)	(9,721)	(2,601)	(18,761)
Total warrant liabilities 31.12.2022	0	0	0	0	0

Warrant class ICEAIRW180222 was exercisable in Q1 with 97.6% of warrant holders opting to exercise their rights to purchase new shares in the Company at a price of ISK 1.22 pr. share. The total proceeds to the Company amounted to USD 17.9 million.

The Bain Capital warrant was exercised in full in July 2022 at a price of ISK 1.64 pr. share. Warrant class ICEAIRW120822 was exerciseable in August with 98% of warrant holders opting to exercise their rights at a price of ISK 1.30 pr. share. The total proceeds to the Company amounted to USD 34,4 million.

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 2023. Non-current obligations are specified as follows:

	2022	2021
Non-current payables	44,568	29,457
Current portion, classified in trade and other payables	(10,621)	(6,073)
Total non-current payables	33,947	23,384
Non-current payables are scheduled to be repaid as follows:		
Repayments in 2022	-	6,073
Repayments in 2023	10,621	7,145
Repayments in 2024	3,932	3,159
Repayments in 2025	8,142	4,024
Repayments in 2026	316	360
Repayments in 2027	1,762	4,705
Subsequent	19,795	3,991
Total non-current payables, including current maturities	44,568	29,457

32. Trade and other payables

Trade and other payables are specified as follows:

	2022	2021
Trade payables	54,388	25,658
Current portion of engine overhauls and security deposits from lease contracts	10,621	6,073
Other payables	136,780	112,005
Total trade and other payables	201,789	143,736

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Notes, contd.:

33. Deferred income

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

Deferred income is specified as follows:

	2022	2021
Sold unused tickets and vouchers	253,425	223,975
Frequent flyer points	18,977	19,798
Other prepayments	30,957	15,307
Total deferred income	303,359	259,080

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 212.3 million (2021: USD 140.3 million) and vouchers amounted to USD 41.1 million (2021: USD 83.7 million). When issued the vouchers were 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.

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.

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Notes, contd.:

34. Financial risk management, contd.:

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 the Icelandic state, high rated banks and financially strong Icelandic 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	2022	2021
Non-current receivables and deposits	20	17,668	18,987
Trade and other receivables	24	133,831	101,291
Marketable securities	23	42,159	58,197
Cash and cash equivalents	25	224,252	204,767
		417,910	383,242

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 does not expect further losses than already accounted for.

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

At year-end 2022, the maximum exposure to credit risk for trade and other receivables and marketable securities by type of financial instrument was as follows:

	2022	2021
Credit cards	40,718	11,151
Trade receivables	10,604	36,481
	51,322	47,632
Marketable securities	42,159	58,197
Other receivables	103,995	70,785
Trade and other receivables, see note 24	197,476	176,614

Impairment losses

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

	Gross 2022	Allowance for impairment 2022	Gross 2021	Allowance for impairment 2021
Not past due	44,950	(404)	31,314	(1,456)
Past due 1-30 days	4,002	(474)	2,561	(523)
Past due 31-120 days	1,008	(520)	15,705	(7,170)
Past due 121-365 days	3,345	(853)	11,556	(4,989)
More than one year	4,336	(4,068)	4,138	(3,504)
Total	57,641	(6,319)	65,274	(17,642)

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Notes, contd.:

34. Financial risk management, contd.:

a. Credit risk, contd.:

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

	2022	2021
Balance at 1 January	17,642	14,305
Impairment loss allowance, (decrease) increase	(11,171)	2,832
Amounts written off	1,381	(493)
Exchange rate difference	(1,533)	998
Balance at 31 December	6,319	17,642

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.

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

Guarantees

The Group's policy is to provide financial guarantees only to wholly owned subsidiaries. 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. Most of these were relinquished before the end of the year. The remaining guarantee is expected to be relinquished in Q1 2023. See note 19.

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 224 million, and USD 42 million of marketable securities with trusted counterparties, total USD 266 million.

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 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

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Notes, contd.:

34. Financial risk management, contd.:

b. Liquidity risk, contd.:

31 December 2021	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	19,173	22,344	3,719	5,125	13,500	0
Secured loans	238,612	262,485	42,445	47,862	112,057	60,121
Guarantees	2,000	2,000		2,000		
Lease liability	245,659	299,054	46,100	82,344	89,830	80,780
Payables and prepayments ..	167,120	167,120	143,736	7,145	7,543	8,696
	672,564	753,003	236,000	144,476	222,930	149,597
Derivative financial liabilities						
Commodity derivatives	944	944	944	0	0	0
Margin accounts	1,653	1,653	1,653	0	0	0
Forward exchange contracts	(382)	234	234	0	0	0
- Outflow	(16,464)	(16,472)	(16,472)	0	0	0
- Inflow	16,633	16,706	16,706	0	0	0
Interest rate swaps	(498)	(1,514)	(676)	(396)	(374)	(68)
	1,717	1,317	2,155	(396)	(374)	(68)

Undrawn secured credit lines at year-end 2022 amounted to USD 52.0 million (2021: USD 52.0 million). Thereof USD 22.0 million are available until September 2025 and USD 30.0 million until April 2024. An undrawn Government Guaranteed credit line amounting to USD 120.0 million (2021: USD 120.0 million) which was available until mid-September 2022 was terminated by the Company on 7 February 2022 having never been drawn on.

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 ISK holdings in term deposits, bonds issued by the Icelandic state and rated domestic 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.

Carbon risk

Icelandair is required to procure three types of emission allowances in relation to its operations: EUAs, UKAs and CHUAs. Carbon emission is calculated in a fixed proportion of 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. 47% of the Company’s total emission allowance needs in 2022. In 2022 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.

Consolidated Financial Statements of Icelandair Group hf. 2022 34 Amounts are in USD thousand

Notes, contd.:

34. Financial risk management, contd.:

c. Market risk, contd.:

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. All existing hedge contracts include a stop-loss put to limit the associated risk.

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	
	2022	**2021**
Increase in fuel prices by 10%	3,199	1,760
Decrease in fuel prices by 10%	(3,199)	(1,760)

At year-end 2022 all open hedge positions 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 currencies, most importantly EUR and Scandinavian currencies but also GBP and CAD. The disruption caused by the COVID-19 pandemic and the subsequent financial restructuring culminating in an ISK denominated share offering, temporarily changed both the cash flow and the balance sheet exposure. The usual ISK cash flow shortfall shifted to a long position with ISK denominated financial assets being more dominant than before. Based on the unusual macro-economic conditions of 2022 i.e., high inflation coupled with low interest rates in both EUR and USD markets during the first half of 2022 the Group decided to maintain a higher than usual ratio of ISK financial assets in a bid to optimize yields. The appreciation of USD in 2022 against most currencies, including the ISK did however spill some adverse exchange rate effects due to the increased weight of ISK assets on the Balance Sheet.

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Notes, contd.:

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:

2022	ISK	EUR	GBP	DKK	NOK/SEK	CAD
Receivables / payables, net ..	35,499	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
Tax carrying forward	78,556	0	0	0	0	0
Forward exchange contracts	54,411	(10,666)	(12,029)	(6,454)	(11,833)	(11,788)
Net statement of financial position exposure .	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

2021	ISK	EUR	GBP	DKK	SEK	CAD
Receivables / payables, net ..	(90,765)	(102,256)	(15,364)	(13,705)	(7,820)	(10,728)
Marketable securities	58,197	0	0	0	0	0
Cash and cash equivalents ..	30,556	9,380	5,833	4,079	4,678	2,160
Secured bank loans	0	(59,091)	0	0	0	0
Unsecured loans	(19,173)	0	0	0	0	0
Warrants	(18,395)	0	0	0	0	0
Lease receivables	3,274	0	512	0	0	0
Lease liabilities	(116,266)	(447)	(972)	(92)	0	0
Forward exchange contracts	16,706	(2,265)	(4,051)	(1,523)	(1,658)	(1,572)
Net statement of financial position exposure .	(135,866)	(154,679)	(14,042)	(11,241)	(4,800)	(10,140)
Next 12 months forecast sales	298,958	242,710	53,489	21,816	55,203	41,402
Next 12 months forecast purchases	(514,683)	(174,277)	(20,925)	(11,232)	(6,634)	(5,307)
Capex thereof	(28,989)	(902)	0	0	0	0
Currency exposure	(351,591)	(86,246)	18,522	(657)	43,769	25,955

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

	Average rate		Year-end spot rate	
	2022	2021	2022	2021
ISK	0.0074	0.0079	0.0070	0.0076
EUR	1.05	1.18	1.07	1.13
GBP	1.23	1.38	1.20	1.35
CAD	0.77	0.80	0.74	0.79
DKK	0.14	0.16	0.14	0.15
SEK	0.10	0.12	0.10	0.11

Consolidated Financial Statements of Icelandair Group hf. 2022 36 Amounts are in USD thousand

Notes, contd.:

34. Financial risk management, contd.:

c. Market 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.

2022	Directly in equity	Profit or loss	Total effect on equity
ISK	(4,353)	(8,820)	(13,173)
EUR	853	1,658	2,511
GBP	962	(311)	651
DKK	516	(837)	(320)
SEK	947	(851)	96
CAD	943	(777)	166
2021			
ISK	(6,190)	17,060	10,869
EUR	181	12,193	12,374
GBP	324	799	1,123
DKK	122	777	899
SEK	133	251	384
CAD	126	685	811

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	
	2022	**2021**
Commodity derivatives and forward exchange contracts (Carrying amount)	(2,569)	1,227
Interest rate swaps (Notional amount)	(38,730)	(58,629)
	(41,299)	(57,402)
Variable rate instruments		
Financial assets (Carrying amount)	266,028	262,699
Financial liabilities (Carrying amount)	(255,717)	(268,221)
	10,311	(5,522)

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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Notes, contd.:

34. Financial risk management, contd.:

c. Market risk, contd.:

31 December 2022	100 bp increase	100 bp decrease
Commodity derivatives and forward exchange contracts	16	(17)
Interest rate swaps	1,209	(1,271)
Fair value sensitivity (net)	1,225	(1,288)

31 December 2021		
Commodity derivatives and forward exchange contracts	(8)	8
Interest rate swaps	1,830	(1,924)
Fair value sensitivity (net)	1,822	(1,916)

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 2022	100 bp increase	100 bp decrease
Variable rate instruments	82	(82)
Cash flow sensitivity (net)	82	(82)

31 December 2021		
Variable rate instruments	(44)	44
Cash flow sensitivity (net)	(44)	44

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 2022	1-6 months	7-12 months	> 13 months	Total
Fuel	(1,149)	(166)	0	(1,315)
Currency	(593)	(227)	0	(820)
Interest rate swap	0	0	1,834	1,834
Margin accounts	1,510	0	0	1,510
Total derivatives, Payable	(232)	(393)	1,834	1,209
Tax	348	79	(308)	119
Derivatives used for hedging, Equity	(1,394)	(314)	1,526	(182)

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.

Consolidated Financial Statements of Icelandair Group hf. 2022 38 Amounts are in USD thousand

Notes, contd.:

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 2022	Fair value 2022	Carrying amount 2021	Fair value 2021
Derivatives used for hedging	1,209	1,209	1,717	1,717
Unsecured bond issue	(19,201)	(18,008)	(19,173)	(19,308)
Secured loans	(236,516)	(234,488)	(238,612)	(248,043)
Warrants	0	0	(18,395)	(18,395)
Lease liabilities	(342,155)	(342,155)	(245,659)	(245,659)
Total	(596,663)	(593,442)	(520,122)	(529,688)

Fair value hierarchy:

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

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				
Warrants				0
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)

31 December 2021

Financial assets	Level 1	Level 2	Level 3	Total
Derivatives used for hedging		2,853		2,853
	0	2,853	0	2,853
Financial liabilities				
Warrants		(18,395)		(18,395)
Unsecured bond issue			(19,308)	(19,308)
Secured loans			(248,043)	(248,043)
Lease liabilities			(245,659)	(245,659)
Derivatives used for hedging		(1,136)		(1,136)
	0	(19,531)	(513,010)	(532,541)

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

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at market 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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Notes, contd.:

36. Capital commitments

The Group took delivery of seven 737 MAX8 aircraft during the year 2022. Four of them are classified as Right-of-use assets (of which two are financed through sale and leaseback agreements) and three classified as Operating assets.
Furthermore, The Group took delivery of one B767-300 freighter on operating lease (classified as Right-of-use asset) in Q3.

As announced in June 2022, the Group entered into a purchase commitment for four 737 MAX8 aircraft. Two of these aircraft were delivered in fall of 2022 and will enter scheduled service in Q2 2023.

The purchase commitment for the latter two aircraft was cancelled due to delivery delays and instead the Group has secured long-term operating leases of two alternative 737 MAX8 aircraft which will enter service in Q2 2023, see note 29.

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.

2022	Salaries and benefits	Pension contri-bution	Incentive payments for previous year	Number of shares held at year-end 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
Key employees:				
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
Gender ratio for key employees (male / female)	67/33			
2021				
Board of Directors:				
Guðmundur Hafsteinsson, Chairman	65.1	7.5		8,555
Nina Jonsson, Vice Chairman	68.7	7.9		
John F Thomas	63.0	7.2		2,941
Matthew Evans	18.6	2.9		
Svafa Grönfeldt	59.4	6.8		10,833
Úlfar Steindórsson, former Chairman	42.0	4.8		17,656
Key employees:				
Bogi Nils Bogason Group CEO	518.0	119.6		20,708
Seven members of Executive committee	1,940.9	345.1	30	40,377
Gender ratio for key employees (male / female)	65/35			

* Including financially related

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Notes, contd.:

37. Related parties, contd.:

No stock option contracts were open at year-end 2022. All investors that participated in the 2020 share offering were allotted warrants which were listed on the Icelandic Stock Exchange. Investors could exercise these warrants to buy additional shares. Members of management and those directors that participated in the offering exercised the warrants during the year.

Transaction with associates

The Group purchased and sold services to associates for immaterial amounts in 2022 and 2021. At year-end, the Company had a long term receivable on its associate Lindarvatn amounting to USD 18.3 million.

Transaction with shareholders

There are no shareholders with significant influence at year-end 2022. Companies which members of the Board and key employees control have been identified as being thirteen. These companies have been identified as related. Transactions with them where immaterial in 2022.

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 District Court of Reykjavik 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 ruling has been appealed to the Court of Appeal. The said amount may be claimed from Icelandair Group if the ruling of the District Court will be upheld 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 19.

39. Group entities

The Company held the following significant subsidiaries at year-end 2022 which are all included in the Consolidated Financial Statements:

	Ownership interest	
	2022	**2021**
Passenger and cargo operations		
IceCap Insurance PCC Ltd.	100%	100%
Iceeignir ehf.	100%	100%
Icelandair ehf.	100%	100%
Icelandair Cargo ehf.	100%	100%
Flugfélag Íslands ehf.	100%	100%
CAE Icelandair Flight Training ehf.	67%	67%
Other Group entites		
Loftleiðir - Icelandic ehf.	100%	100%
FERIA ehf. (VITA)	100%	100%

The subsidiaries further own seven minor operating companies that are also included in the Consolidated Financial Statements. Two of those have non-controlling shareholders.

40. Events after reporting date

On 31 January the Company completed a financing transaction in respect of two Boeing 737 MAX 8 aircraft. The net proceeds to the Company amounted to USD 64 million.

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Notes, contd.:

41. Ratios

The Group's primary ratios at year end are specified as follows:	2022	2021
Current ratio	0.74	0.83
Equity ratio	0.19	0.19
Intrinsic value of share capital	0.88	0.82

42. 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:		2022	2021
Acquisition of right-of-use assets	16	(122,452)	(132,646)
New or renewed leases	29	127,108	133,858
Gain on sale due to sales and leaseback		(1,153)	(2,460)
Non-current receivables		(3,503)	1,248
Loans and borrowings		8,923	16,726
Trade and other payables		(8,923)	(16,726)
Warrants issued	30	(18,761)	(795)
Retained earnings		18,761	795

43. 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 looses 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) Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially 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.

(iii) Transactions eliminated on consolidation

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

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Notes, contd.:

43. Significant accounting policies, contd.:

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.

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.

Notes, contd.:

43. Significant accounting policies, contd.:

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.

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

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

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

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

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

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

Notes, contd.:

43. Significant accounting policies, contd.:

e. Leases, contd:

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

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'.

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.

Notes, contd.:

43. Significant accounting policies, contd.:

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.

(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.

Notes, contd.:

43. Significant accounting policies, contd.:

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.

Notes, contd.:

43. Significant accounting policies, contd.:

k. Financial instruments, contd.:

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.

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.

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.

Notes, contd.:

43. Significant accounting policies, contd.:

k. Financial instruments, contd.:

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

(iv) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency, fuel price and interest rate risk exposures (see note 34). Derivatives are 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.

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.

Notes, contd.:

43. Significant accounting policies, contd.:

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.

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.

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.

Notes, contd.:

43. Significant accounting policies, contd.:

m. Impairment, contd.:

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.

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.

Notes, contd.:

43. Significant accounting policies, contd.:

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.

44. Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

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

- Deferred tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)

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, and rules for Issuers of Securities listed on the Nasdaq Iceland, make up the framework for Icelandair Group's Corporate Governance practices. The Company's Articles of Association are accessible on the Company's website. 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.

The Company complies in all main respects to the rules mentioned above. As there are detailed rules of procedure in place for the Nomination Committee, a specific diversity policy has not been implemented in relation to combination of the members of the Board of Directors. In its work, the Nomination Committee considers the combination of the Board in terms of education, professional background, gender, knowledge, experience and skills. The Company has set a goal that the gender ratio is never less than 40% of either men or women in management positions.

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	10	4	3	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 in order 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 is currently in the final review of its Risk governance framework to include a centralized enterprise risk platform that will be 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.

The oversight of compliance with the Company’s risk management policies and procedures resides with the Board´s Audit Committee. 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 four meetings in 2022.

Audit Committee members:
- Alexander Edvardsson, Chairman
- John F. Thomas
- Svafa Grönfeldt

Corporate Governance Statement, contd.:

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 Group 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 taking into account the factors above.
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. No stock options have been granted yet based on the program.

General Salary Development

The international airline and aviation industry is a 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 labour market industry pay developments vis-à-vis the ground- and office staff is characterized by a complicated set up based on operational requirements of 24/7 opening functionality all year around.

Corporate Governance Statement, contd.:

Remuneration Committee, contd.:

CEO Remuneration

According to Icelandair Group's Remuneration 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 for appropriate changes to the Board of Directors to reflect a strategic or tactical directional change for the Group from time to time.

Board of Directors' Remuneration

According to Icelandair Group'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 2022 it was agreed that the remuneration to the Board Members and Sub-Committee Members would be the same as 2021. The Remuneration Committee held three meetings in 2022.

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.

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.

Corporate Governance Statement, contd.:

Nomination Committee, contd.:

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 2022 and furthermore had meetings with Icelandair Group's management team and the largest shareholders.

Nomination Committee members:
Hjorleifur Palsson, Chairman
Helga Arnadottir
Ulfar Steindorsson

Strategy Committee

At the start of the 2022-23 term of Icelandair's Board of Directors, it was decided to discontinue the Strategy Committee, one of the Board's sub-committees. The purpose of the Strategy Committee had been to maintain oversight over the development and implementation of Icelandair Group's strategy and the risks to it. In addition, the Committee had served as a forum for in-depth discussions on Icelandair Group's strategy.

The Strategy Committee had been active between 2020 and 2022, at a time when Icelandair was revising its strategy development and implementation processes prompting a need for frequent interactions on the topic between the Board and management. At the start of the 2022-23 term, the Board concluded that there was no longer a need for as frequent meetings on strategy development and implementation, and that it would be better to schedule in-depth discussions on Icelandair Group's strategy at its regular meetings. Therefore, the decision was made to discontinue the Strategy Committee.

Health & Safety Committee

The purpose of the Health & Safety Committee is to maintain oversight over the development and implementation of Icelandair Group's s Health & Safety policies and initiatives. In addition, the Committee serves as a forum for in-depth discussions on Icelandair Group'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 sit on the Health & Safety Committee.

The Health & Safety Committee was formed to foster closer involvement from the Board of Directors with Icelandair Group's Health & Safety policies. As a whole, 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. In year 2022 it was decided to, from now on, initiate all quarterly Board of Directors meetings on a ten minute safety review. The committee held four meetings in 2022.

Health & Safety Committee members:
John F. Thomas, Chairman
Nina Jonsson

Corporate Governance Statement, contd.:

The Board of Directors and Executive Committee

Board of Directors

At the Annual general meeting of Icelandair Group, held on 3 March 2022, the following were elected members of the Board of Directors; Guðmundur Hafsteinsson, John F. Thomas, Matthew Evans, Nina Jonsson, Svafa Grönfeldt. Guðmundur Hafsteinsson took on the role of 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. Gudmundur is independent of the company, its management and significant shareholders and has 8,555,555 shares. For 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 has 3,394,500 shares. For 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 is a board member as the representative of the Company's largest shareholder and as such he is not independent from the Company's major shareholders and neither holds shares nor share options in the Company. For 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 has no shares. For further information.

Svafa Grönfeldt
Svafa joined the Board of Icelandair Group on 8 March 2019. She is born in 1965 and is an Icelandic citizen. Svafa is independent of the company, its management and significant shareholders and has 12,500,000 shares. For further information.

Executive committee

Bogi Nils Bogason, President & CEO
Bogi has 23,625,000 shares but holds no share options and has no interest links with the Company's main clients, competitors, or major shareholders. For further information.

Arni Hermannsson, Managing Director Loftleidir Icelandic
Elisabet Helgadottir, Chief Human Resources Officer
Gunnar Mar Sigurfinnsson, Managing Director Icelandair Cargo
Ivar S. Kristinsson, Chief Financial Officer
Jens Bjarnason, Chief Operating Officer
Rakel Ottarsdottir, Chief Digital Officer
Sylvia Kristin Olafsdottir, Chief Customer Officer
Tomas Ingason, Chief Revenue Officer

The executive committee held 87 meetings in 2022. At the beginning of the year, Sylvia Kristin Olafsdottir was appointed Chief Customer Officer and Rakel Ottarsdottir was appointed Chief Digital Officer of Icelandair Group. They both started in the first quarter of the year and took seat on the Executive Committee. Further information about the Executive committee members can be found on the Icelandair Group website.

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

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

Corporate Governance Statement, contd.:

Board of Directors, contd.:

The Company's Board of Directors must at all times ensure that there is adequate supervision of the Company's accounts and the safeguarding of its assets and shall adopt working procedures in compliance with the Companies Act. Only the Board of Directors may assign powers of procuration on behalf of the Company. The signatures of the majority of the members of the Board are required to bind the Company. The President and CEO has charge of the day-to-day operation of the Company and is required in his work to observe the policy and instructions set out by the Company's Board of Directors. Day-to-day operation does not include measures which are unusual or extraordinary. Such measures can only be taken by the President and CEO with the specific authorization of the Board of Directors unless it is impossible to await the decision of the Board without seriously disadvantaging the operation of the Company. In such instances, the President and CEO is required to consult with the Chairman of the Board, if possible, after which the Board of Directors must immediately be notified of the measures. The President and CEO shall ensure that the accounts and finances of the Company conform to 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 taken unless all members of the Board have had an opportunity to discuss the matter, if possible. The outcome of issues is decided by force of vote, and in the event of an equality of votes, the issue is regarded as rejected. The President and CEO attends meetings of the Board of Directors, even if he or she is not a member of the Board and has the right to participate in discussions and submit proposals unless otherwise decided by the Board in individual cases. A book of minutes is kept of proceedings at meetings and must be signed by participants in the meeting. A Board member who disagrees with a decision made by the Board of Directors is entitled to have his or her dissenting opinion entered in the book of minutes. The same applies to the President and CEO. The Chairman is responsible for the Board's relations with the shareholders and he shall inform the Board on the views of the shareholders.

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

The Board of Directors elects the members of the Remuneration Committee and the Audit Committee. These sub-committees adhere to the Rules on Working Procedures. The Nomination Committee has its own Rules of Procedures which are approved by the Board. The Board of Directors convened 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 2022 with the exception of Matthew Evans who represent the largest shareholder.

Non-Financial Reporting

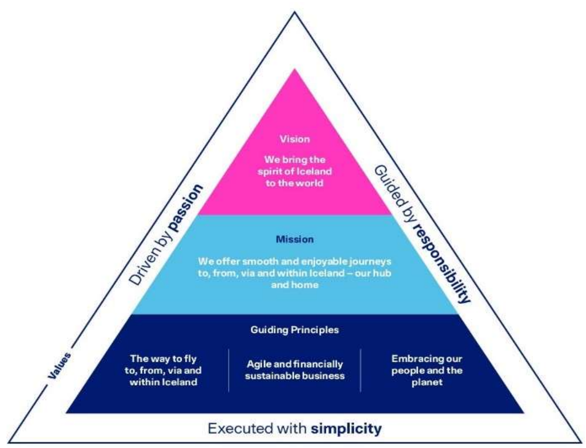
Corporate Strategy

Icelandair Group'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 culture the Company aims to foster.

In 2022, Icelandair reviewed and developed its strategy further by establishing the guiding principles that represent the key to successful decision-making and resource allocation. The aim was to make the strategy clearer and easier to communicate. These changes ensure that the strategy is more direct and are based on employee feedback to better align the strategy with daily operations. The three guiding principles 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 and acting quickly, 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



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’s approach to sustainability

As the leading airline in Iceland and an important employer, Icelandair Group takes its responsibility towards all its stakeholders seriously. Defined key stakeholders are employees, customers, shareholders, suppliers and partners, the tourism industry, various NGOs and the Icelandic authorities.

Non-Financial Reporting, contd.:

Icelandair Group's approach to sustainability, contd.:

The Company has approached selected groups of stakeholders (Icelandair Group Annual Report 2020) for their views on which sustainability matters relating to Icelandair Group's decisions and activities are material for them. The assessment gathered the views of key stakeholders and confirmed that the most material sustainability issue for the Company is climate impact. Other material issues defined in terms of sustainability within Icelandair Group's operations are environmental impact, passenger safety and well-being, fair employment, gender equality and diversity, contribution to the Icelandic economy, responsible procurement, business ethics and anti-corruption, as well as governance.

Icelandair Group's 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. After issuing this year's financial statements, Icelandair Group will start preparing for next year, by identifying which areas need to be addressed, to be in line with the new EU legislation - the Corporate Sustainability Reporting Directive (CSRD). Specific targets have been set for the Company's key sustainability focus areas and action plans have been developed. The following sections provide further information on the responsible actions Icelandair has taken as well as an overview of the key areas of sustainability.

At Icelandair, 2022 was a year of a turnaround of the business following the pandemic. The number of passengers more than doubled and the Company was well positioned and prepared to rapidly increase capacity to meet the steep increase in demand in all its markets. Flights were offered to 51 destinations, compared to 40 in 2021, and three new destinations were added to the network.

In line with the aviation industry as a whole, Icelandair experienced challenging conditions at airports and issues in supply chains that caused flight disruptions over the summer peak. Icelandair was, however, in a good position to respond to these challenges. With its extensive flight schedule, high frequency of flights and the resourcefulness of the Company's employees, it managed to find ways to get passengers efficiently to their destinations. At the same time there were operational challenges in the domestic network but with a joint effort those challenges were addressed by the end of the year. In addition, severe weather conditions towards the end of the year impacted Icelandair's customers, operations, and financial performance.

Icelandair's employees have shown perseverance and endurance and they have played a big part in the effective ramp-up of the operations and getting the Company through the challenging condition of last years. In line with the expansion of its operations, Icelandair has hired around six hundred employees at the end of the year.

	2022	2021
Turnover rates	8%	7%
Average FTEs	3045	2087
FTEs year end	3023	2393

The successful ramp-up of Icelandair's operations following the pandemic has been crucial for the recovery of Icelandic tourism and economy due to Icelandair's significant role in connecting Iceland to the world and as one of the largest employer in the country. Safeguarding the value that aviation and travel create and the fact that people want to travel and broaden their horizon which increases the demand for flights, it is important to ensure a sustainable future of these industries, taking into account economic, social and environmental factors.

Non-Financial Reporting, contd.:

Environment

Icelandair Group is an environmentally-conscious company and recognises the impact that air travel has on the environment. The Company is dedicated to minimising its environmental impact by addressing its responsibilities to reduce emissions, conserve natural resources, as well as optimise the use of sustainable energy and recyclable materials. 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 36 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 programme is based on recognized environmental management principles, ISO 14001, and assessments are conducted by accredited independent organisations. Icelandair Environmental Policy can be found on Icelandair's website.

Sustainable business growth requires the Company to address its environmental impact, both globally and locally. As part of this effort, Icelandair Group participates in the work of various environmental working groups, at organizations such as the International Air Transport Association (IATA) and Airlines for Europe (A4E).

Climate SDG#13

Icelandair adheres to the industry goals IATA has set to address the global challenge of climate change, aiming to achieve net zero emissions by 2050, and monitors fuel efficiency and CO2 emissions from flight and ground operations, accordingly. In addition, the Company has set specific targets for reducing emissions by 2030.

• 50% reduction of CO2 emissions per OTK from flight operations by 2030 compared to 2019

• 40% reduction of CO2 emissions from ground vehicles by 2025 compared to 2015

The total emissions from aviation in 2022 were 950,107 tCO2e, a reduction of 30% compared to 2019. The emissions from the route network includes domestic and regional routes. The emissions from aviation are reported to the Environmental Agency of Iceland annually.

The year 2022 was an eventful year for fleet renewal in the international network. Icelandair took delivery of seven Boeing 737 MAX aircraft, including the last three aircraft from the Boeing order made in 2013 and four additional aircraft of the same type from other sources. They are of a new generation of more environmentally friendly aircraft and therefore an important part of reducing carbon emissions in the operations.

The MAX has proven to be a good fit to Icelandair's route network, and its fuel efficiency contributes positively to the Company´s efforts of reducing its carbon emissions.

Fleet renewal is currently the most effective measure to reach ambitious goals in reducing carbon emissions. Working towards a sustainable future of aviation is an important emphasis for Icelandair now and going forward.

Fuel efficiency is measured in fuel burn per operational tonne kilometre (OTK) which takes into consideration the weight of the aircraft, passengers and cargo.

	2022	2021
Total CO2 emissions	950,107	484,955
kgCO2 emissions per OTK	0.77	0.93

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). In addition, Icelandair has signed letters of intent with Heart Aerospace and Universal Hydrogen that are developing electric-hybrid and hydrogen-powered aircraft.

Non-Financial Reporting, contd.:

Waste

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

	2022	2021
Amount of waste	1160 tons	688 tons
Sorted waste	33%	40%
General waste	67%	60%

The amount of waste is relative to the number of flights flown and passengers transported, therefore, the total amount of waste almost doubles year to year. Laws and regulations restrict waste separation on-board, therefore the percentage of sorted waste decreased between 2022 and 2021.

Icelandair has offered passengers the option to offset the carbon footprint of their air travel since September 2019. Passenger participation in this program during 2022 contributed to the planting of around 4000 trees over the year. The carbon offset program was devised in co-operation with Klappir Green Solutions and Kolviður – the Iceland Carbon Fund to cultivate forests in Iceland and sequestering carbon from the atmosphere through tree planting.

Society - Decent work and economic growth SDG#8

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 signed a partnership agreement with Arctic Circle on further collaboration where the goal is to strengthen Iceland's position as an international centre for dialogue on matters related to the Arctic and the climate. Among other projects is its support of Icelandic music through Iceland Airwaves and Icelandic Music Experiments. Icelandair 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 Children Special Travel Fund which helps families of children with long-term illnesses and children who live in difficult circumstances.

Employees

Icelandair Group'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. Code of Ethics for Icelandair group can be found on Icelandair's website.

Health and safety

General health and well-being of Icelandair Group's 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 Group offers various health-related programs and initiatives to further its employee's health and wellbeing. 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 Health Protection Service (Heilsuvernd) on confidential medical services ensuring employee's access to health care.

Non-Financial Reporting, contd.:

Health and safety, contd.:

Special preventive arrangements were made to ensure the safety of all employees during the continued pandemic in the first months of 2022. The Company continued to make necessary changes to work schedules to ensure the safety of employees and to ensure that the Company complied with all rules and regulations, with regards to restrictions on gatherings of people, number limits, proximity limits and mask use.

The Company is proud of how its team of people has adapted to 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. The past year the Company continued emphasizing on strong communication and information flow from leadership and necessary support in remote working.

Equal Rights

One of Icelandair Group's 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.

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 our leadership team is especially important.

	2022	2021
Overal gender ratio, men / women	54% / 46%	55% / 45%

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.

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 had dropped to 5% in 2021 but with the successful ramp-up of Icelandair's operations following the pandemic the proportion for 2022 is up to 11%. Male cabin crew members were 5.3% 10 years ago but are up to 14% in 2022.

	2022	2021
Female pilots	11%	5%
Male cabin crew	14%	9%

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

Equal pay policy

Icelandair Group implemented an equal pay policy in 2018. The purpose of the Equal Pay Policy is to ensure gender pay equality in the Company through the implementation of an Equal Pay System. Icelandair Group commits to ensure 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. The Executive Board of Icelandair Group will annually establish equal pay objectives based on measurements derived from a pay analysis. Two companies within Icelandair Group, Icelandair and Icelandair Cargo had been certified by a third party and received Equal pay certification in 2021. In 2022 the certification for the companies were combined in one and it was recertified for 2022-2025.

Non-Financial Reporting, contd.:

Equal pay policy, contd.:

According to the Act on Equal Status and Rights Irrespective of Gender no. 150/2020 all companies and institutions that have 25 or more employees must make an Equality Plan or integrate equality matters into their personnel policies. The Company updated their Equality plan in 2022. The Equality Plan 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. Icelandair Group's Equal Pay Policy can be found on Icelandair website.

Responsible Business SDG#12

In 2022 the Company continued to work to centralise and improve procurement functions across all its operations as responsible procurement has been identified as a material issue for Icelandair Group. 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.

All suppliers are asked to apply to the Supplier code of conduct, and they are evaluated through Icelandair Group's risk screening model. By the end of 2022 52% of suppliers with registered contracts in the Company's contract system had read and signed the Supplier Code of Conduct. The current procurement processes involve the risk screening model to be one of the decision factors when choosing a supplier before a contract with a supplier is signed. In 2021 all significant suppliers went through the risk screening model and in 2022 all other suppliers with a registered contract in our contract system were assessed according to risk. That includes all current and new suppliers as well as suppliers that had their contracts renewed in 2022. Before entering contracts with the Company, suppliers should confirm that they have policies in place for reducing negative environmental and social impacts and adhere to good governance principles.

In 2023, the goal is to implement a new responsible Sourcing and Procurement policy. More emphasis will be put on qualifying and monitoring suppliers in a systematic way, with self-assessments and risk evaluations.

Human Rights

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

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

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

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 behaviour or breach of legal obligations or other reprehensible misconduct within the company, it implemented a simple tool for employees, which is called Tilkynna.is. The tool is simple in use, and it is possible to send a comment regarding a behaviour 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.

Non-Financial Reporting, contd.:

Anti-corruption and bribery policy

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

ESG Accounting

Environmental Metrics

E1 GhG Emissions	Units	2022	2021
Total amount, in CO2 equivalents, for Scope 1	tCO2e	951,572	486,064
Total amount, in CO2 equivalents, for Scope 2	tCO2e	222	213
Total amount, in CO2 equivalents, for Scope 3	tCO2e	114	68
E2 Emissions Intensity			
Total GhG emission per output scaling factor	tCO2e per FTEs	313	233
	tCO2e per passenger	0.26	0.33
Total CO2 emissions per scaling factor	CO2 per OTK	0.77	0.93
E3 Energy Usage			
Total amount of energy directly consumed (fossil fuels)	kWh	3,932,409,653	1,973,201,386
Total amount of energy indirectly consumed (electricity and heat)	kWh	24,144,673	22,904,111
E4 Energy Intensity			
Total direct energy usage per output scaling factor	kWh per FTEs	1,299,361	957,824
	kWh per passenger	1,082	1,366
E5 Energy Mix			
Non renewable energy (fossil fuels aret he primary energy source)	%	99%	99%
Renewable energy	%	1%	1%
E6 Water Usage			
Total amount of water consumed	m3	342,546	346,556
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 (fossil fuel)
Does your company use a recognized energy management system	Yes/No	Yes	Yes (fossil fuel)

Non-Financial Reporting, contd.:

Environmental Metrics, contd.:

	Units	2022	2021
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	-	-

Social data metrics

	Units	2022	2021
S1 CEO Pay ratio			
CEO total compensation to median FTE total compensation	ratio	5.53	6.4
Does your company report this metric in regulatory filings	Yes/No	Yes	Yes
S2 Gender Pay Ratio			
Gender pay analysis (basic earnings)	%	4.4% in favor of men	0.3% in favor of men*
Gender pay analysis (regular earnings)	%	2.9% in favor of men	3% in favor of men
S3 Employee Turnover			
Year-over-year change for full-time employees	%	8%	7%
S4 Gender Diversity			
Total enterprise headcount held by men and women	women/men%	46/54	45/55
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%	33/67	25/75
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

Non-Financial Reporting, contd.:

Social data metrics, contd.:

S9 Child & Forced Labour	Units	2022	2021
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

Governance Metrics

G1 Board Diversity	Units	2022	2021
Total board seats occupied by women (as compared to men)	%	40%	40%
Committee chairs occupied by women (as compared to men)	%	0%	25%
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	No	No
G4 Collective Bargaining			
Total enterprise headcount covered by collective bargaining agreements	%	97%	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

Non-Financial Reporting, contd.:

Governance Metrics, contd.:

G9 Disclosure Practices	Units	2022	2021
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

*) Restated from last year report

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 2022:

- 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 clearly demonstrated in 2022 following the Russian invasion of the Ukraine at a time when the world was just beginning to see recovery from the unprecedented supply chain disruption caused by the Covid-19 pandemic. 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.

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.

The acute nature of these events limits the Company's ability to mitigate the associated risks. Nonetheless, 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.

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 dioxide 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.

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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.

Quarterly statements (unaudited)

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

	Q1	Q2	Q3	Q4	Total
Year 2022					
Operating income					
Passenger revenue	92,707	256,892	408,288	217,445	975,332
Ancillary revenue	9,976	19,195	25,159	17,895	72,225
Cargo and mail	22,519	21,985	18,277	19,914	82,695
Total transport revenue	125,202	298,072	451,724	255,254	1,130,252
Aircraft and aircrew lease	13,673	13,792	13,455	17,590	58,510
Sale at airport	1,687	1,539	2,963	1,524	7,713
Revenue from tourism	10,173	7,436	7,459	5,996	31,064
Aircraft and cargo handling services	3,142	3,967	4,581	3,171	14,861
Maintenance revenue	336	475	957	900	2,668
Gain on sale of operating assets	1,259	278	780	(89)	2,228
Other operating revenue	3,193	3,386	4,808	6,435	17,822
Total other operating revenue	19,790	17,081	21,548	17,937	76,356
Total other operating income	**158,665**	**328,945**	**486,727**	**290,781**	**1,265,118**
Operating expenses					
Salaries	49,269	64,651	60,275	64,396	238,591
Contributions to pension funds	8,310	10,305	9,461	10,030	38,106
Other salary-related expenses	8,583	8,913	5,022	9,376	31,894
Total salaries and salary related expenses	66,162	83,869	74,758	83,802	308,591
Aircraft fuel	45,311	106,019	136,742	86,418	374,490
Aircraft lease	0	0	1,326	431	1,757
Aircraft handling, landing and navigation	18,341	31,034	40,743	25,274	115,392
Aircraft maintenance expenses	15,317	19,817	26,713	17,144	78,991
Total aviation expenses	78,969	156,870	205,524	129,267	570,630
Operating cost of real estate and fixtures	2,020	2,334	2,354	1,898	8,606
Communication	5,813	5,823	8,211	6,752	26,599
Advertising	4,148	5,337	6,334	8,639	24,458
Booking fees and commission expenses	5,217	15,647	19,722	10,210	50,796
Cost of goods sold	1,366	1,043	2,432	1,180	6,021
Customer services	6,373	11,182	15,941	11,961	45,457
Travel and other employee expenses	8,617	13,303	14,765	12,234	48,919
Tourism expenses	6,530	3,828	4,199	3,320	17,877
Allowance for bad debt	(1,794)	(4,354)	(1,475)	(2,167)	(9,790)
Other operating expenses	6,973	6,456	7,513	8,286	29,228
Total other operating expenses	45,263	60,599	79,996	62,313	248,171
Total operating expenses	**190,394**	**301,338**	**360,278**	**275,382**	**1,127,392**
Operating profit (loss) bef. depr. (EBITDA)	**(31,729)**	**27,607**	**126,449**	**15,399**	**137,726**

Consolidated Financial Statements of Icelandair Group hf. 2022 72 Amounts are in USD thousand

Quarterly statements (unaudited), contd.:

Year 2022	Q1	Q2	Q3	Q4	Total
Depreciation of operating assets	18,225	17,232	23,165	21,523	80,145
Depreciation of right-of-use assets	7,996	9,034	10,421	10,479	37,930
Amortization of intangible assets	388	135	143	134	800
Depreciation and amortization	26,609	26,401	33,729	32,136	118,875
Operating profit (loss) (EBIT)	**(58,338)**	**1,206**	**92,720**	**(16,737)**	**18,851**
Interest income on cash and cash equivalents and marketable securities	125	959	1,485	3,521	6,090
Interest income on lease receivables	0	132	71	57	260
Other interest income	1,537	413	562	(16)	2,496
Finance income total	1,662	1,504	2,118	3,562	8,846
Interest expenses on loans and borrowings	1,869	2,204	2,942	4,480	11,495
Interest on lease liabilities	2,639	2,997	3,677	4,306	13,619
Other interest expenses	524	1,242	223	(2)	1,987
Net currency exchange loss	457	3,452	5,449	(3,864)	5,494
Finance costs total	5,489	9,895	12,291	4,920	32,595
Changes in fair value of warrants	(345)	9,950	(10,185)	0	(580)
Net finance costs	**(4,172)**	**1,559**	**(20,358)**	**(1,358)**	**(24,329)**
Gain on sale of associate/subsidiary	0	0	0	3,807	3,807
Share of loss of associates	14	(632)	1,447	1,021	1,850
Profit (loss) before tax (EBT)	**(62,496)**	**2,133**	**73,809**	**(13,267)**	**179**
Income tax	12,795	1,669	(15,938)	(4,524)	(5,998)
Profit (loss)	**(49,701)**	**3,802**	**57,871**	**(17,791)**	**(5,819)**
Other comprehensive profit (loss)	**9,950**	**(7,305)**	**(21,211)**	**4,240**	**(14,326)**
Total comprehensive (loss) income	**(39,751)**	**(3,503)**	**36,660**	**(13,551)**	**(20,145)**
Net cash from (used in) operating activities	83,883	121,713	(49,110)	34,133	190,619
Net cash from (used in) investing activities	(58,732)	(7,209)	(39,204)	(73,896)	(179,041)
Net cash from (used in) financing activities	38,268	(14,968)	12,570	(26,799)	9,071

Consolidated Financial Statements of Icelandair Group hf. 2022 73 Amounts are in USD thousand

Alternative performance measures (APMs)

Traffic	2022 YTD	2021 YTD
ASK (´000)	13,252,887	5,963,027
RASK (USD cent)	8.2	6.7
CASK (USD cent)	8.4	9.2
RPK (´000)	10,568,557	3,894,555
PAX	3,658,363	1,461,446
OTP	73.0%	84.0%
Passenger flights	14,785	7,661
LF	79.7%	65.3%
Sold Block Hours - Leasing	14,666	13,492
FTK (´000)	132,029	142,713
Passenger mix		
To	1,481,964	687,113
From	556,196	207,841
Via	1,350,969	341,071
Within	269,234	225,421

Capital structure	2022 31.12	2021 31.12
Total cash and marketable securities (USD '000)	266,411	262,964
Liquidity (USD ´000)	318,411	434,964
Net interest-bearing debt (USD ´000)	(10,470)	(5,179)
Net lease liabilites (USD ´000)	335,844	238,137
Current ratio	0.74	0.83
Equity ratio	0.19	0.19
Equity ratio without warrants	0.20	0.21
Intrinsic value of share capital	0.88	0.82

Other	2022 YTD	2021 YTD
Effective fuel price (USD pr. Metric tonn)	1,156	727
CAPEX, gross	314,508	184,077
CAPEX, net	202,290	(12,959)
FTE	3,045	2,087

Alternative performance measures (APMs), contd.:

Traffic

ASK	Available seat kilometers, which is 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)
RPK	Revenue passenger kilometers, the number of revenue passengers carried on scheduled flights multiplied by the number of kilometers those seats were flown
PAX - Passenger	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
OTP	Arrival on time performance, 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, freight and mail according to a published timetable for which it receives commercial remuneration
LF	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
FTK	The number of tonnes of freight carried, obtained by counting each tonne of freight on a particular flight (with one flight number)
Passenger mix:	
To	The tourist market with Iceland as the destination
From	The Icelandic domestic market where Iceland is the point of departure
VIA	The interantional market between Europe and North America
Within	The domestic operation 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

Other

Effective fuel price	Cost of jet fuel and surcharges, including hedging results, but excluding de-icing and emissions trading cost (pr. tonn)
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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