

Icelandair Group hf.
Condensed Consolidated
Interim Financial Statements
1 January - 30 June 2018

USD

Icelandair Group hf.
Reykjavíkurlugvöllur
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Iceland
Reg. no. 631205-1780

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Endorsement and Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 30 June 2018 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements (IAS 34). The interim financial statements comprise the consolidated interim financial statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The condensed consolidated Interim financial statements are stated in thousands of USD.

According to the consolidated statement of comprehensive income, loss for the period from 1 January to 30 June 2018 amounted to USD 60.3 million. Total comprehensive loss for the period was USD 52.1 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 529.7 million, including share capital in the amount of USD 39.1 million. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity.

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. The condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent auditors.

According to our best knowledge it is our opinion that the condensed consolidated interim financial statements give a true and fair view of the financial performance of the Group for the six month period ended 30 June 2018, its assets, liabilities and consolidated financial position as at 30 June 2018 and its consolidated cash flows for the period then ended.

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

The Board of Directors and the CEO have today discussed the condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 30 June 2018 and confirm them by means of their signatures.

Reykjavík, 31 July 2018.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board

Ásthildur M. Otharsdóttir

Guðmundur Hafsteinsson

Heiðrún Jónsdóttir

Ómar Benediktsson

CEO:

Björgólfur Jóhannsson

Consolidated Statement of Comprehensive Income for the period from 1 January to June 30 2018

	Notes	2018 1.4.-30.6.	2017 1.4.-30.6. *Restated	2018 1.1.-30.6.	2017 1.1.-30.6. *Restated
Operating income					
Transport revenue	7	287.200	271.097	457.995	419.856
Aircraft and aircrew lease		29.574	20.432	62.968	41.059
Other operating revenue	7	82.132	75.771	145.562	128.460
		<u>398.906</u>	<u>367.300</u>	<u>666.525</u>	<u>589.375</u>
Operating expenses					
Salaries and other personnel expenses		144.985	125.787	258.114	212.048
Aviation expenses		142.475	115.838	243.167	197.384
Other operating expenses		96.753	85.100	168.762	149.345
	8	<u>384.213</u>	<u>326.725</u>	<u>670.043</u>	<u>558.777</u>
Operating profit before depreciation and amortisation (EBITDA) ..		14.693	40.575	(3.518)	30.598
Depreciation and amortisation		<u>(34.491)</u>	<u>(30.850)</u>	<u>(62.493)</u>	<u>(56.737)</u>
Operating (loss) profit before net finance income (EBIT)		<u>(19.798)</u>	<u>9.725</u>	<u>(66.011)</u>	<u>(26.139)</u>
Finance income		579	6.302	1.364	7.768
Finance costs		<u>(12.554)</u>	<u>(4.343)</u>	<u>(11.931)</u>	<u>(7.753)</u>
Net finance (costs) income	9	<u>(11.975)</u>	<u>1.959</u>	<u>(10.567)</u>	<u>15</u>
Share of profit of associates, net of tax		293	61	1.559	531
(Loss) profit before tax		<u>(31.480)</u>	<u>11.745</u>	<u>(75.019)</u>	<u>(25.593)</u>
Income tax		5.752	<u>(1.835)</u>	14.763	5.619
(Loss) profit for the period		<u>(25.728)</u>	<u>9.910</u>	<u>(60.256)</u>	<u>(19.974)</u>
Other comprehensive (loss) income:					
Foreign currency translation differences of foreign operations		<u>(5.321)</u>	8.256	<u>(5.564)</u>	9.010
Effective portion of changes in fair value of cash flow hedge, net of tax		5.932	<u>(2.628)</u>	13.758	<u>(16.583)</u>
Other comprehensive profit (loss) for the period		<u>611</u>	<u>5.628</u>	<u>8.194</u>	<u>(7.573)</u>
Total comprehensive (loss) profit for the period		<u>(25.117)</u>	<u>15.538</u>	<u>(52.062)</u>	<u>(27.547)</u>
(Loss) profit attributable to:					
Owners of the Company		<u>(25.851)</u>	9.852	<u>(60.280)</u>	<u>(20.097)</u>
Non-controlling interest		123	58	24	123
(Loss) profit for the period		<u>(25.728)</u>	<u>9.910</u>	<u>(60.256)</u>	<u>(19.974)</u>
Total Comprehensive (loss) profit attributable to:					
Owners of the Company		<u>(25.190)</u>	15.471	<u>(52.055)</u>	<u>(28.438)</u>
Non-controlling interest		73	67	<u>(7)</u>	891
Total comprehensive (loss) profit for the period		<u>(25.117)</u>	<u>15.538</u>	<u>(52.062)</u>	<u>(27.547)</u>
(Loss) profit per share:					
Basic (loss) profit per share in US cent per share		<u>(0,53)</u>	0,20	<u>(1,25)</u>	<u>(0,41)</u>
Diluted (loss) profit per share in US cent per share		<u>(0,53)</u>	0,20	<u>(1,25)</u>	<u>(0,41)</u>

* See note 4

The notes on pages 8 to 20 are an integral part of these interim consolidated financial statements.

Consolidated Statement of Financial Position as at 30 June 2018

	Notes	30.6.2018	31.12.2017 *Restated
Assets			
Operating assets	10	672.853	652.705
Intangible assets and goodwill		175.569	180.422
Investments in associates		28.931	29.629
Receivables and deposits		50.693	97.030
Non-current assets		928.046	959.786
Inventories		29.627	26.801
Derivatives used for hedging		34.594	18.450
Trade and other receivables		279.311	186.027
Assets classified as held for sale	6	133.524	7.500
Short term investments		13.662	4.087
Cash and cash equivalents		237.172	221.191
Current assets		727.890	464.056
Total assets		1.655.936	1.423.842
Equity			
Share capital		39.053	39.532
Share premium		133.513	140.519
Reserves	11	81.243	127.407
Retained earnings		274.604	287.749
Equity attributable to equity holders of the Company		528.413	595.207
Non-controlling interest		1.331	1.338
Total equity		529.744	596.545
Liabilities			
Loans and borrowings	12	328.641	280.254
Payables		16.784	17.239
Deferred tax liabilities		46.543	60.885
Non-current liabilities		391.968	358.378
Loans and borrowings	12	14.692	9.287
Derivatives used for hedging		0	1.383
Trade and other payables		273.824	232.188
Liabilities classified as held for sale	6	57.333	0
Deferred income		388.375	226.061
Current liabilities		734.224	468.919
Total liabilities		1.126.192	827.297
Total equity and liabilities		1.655.936	1.423.842

* See note 4

The notes on pages 8 to 20 are an integral part of these interim consolidated financial statements.

Consolidated Statement of Changes in Equity for the period from 1 January to 30 June 2018

	Attributable to equity holders of the Company					Non-con- trolling interest	Total equity
	Share capital	Share premium	Reserves	Retained earnings	Total		
1 January to 30 June 2017							
Equity 1.1.2017	40.576	154.705	114.849	257.696	567.826	387	568.213
Impact of IFRS 15 implementation ...				5.129	5.129		5.129
Restated Equity 1.1.2017	40.576	154.705	114.849	262.825	572.955	387	573.342
Total comprehensive loss			(8.341)	(20.097)	(28.438)	891	(27.547)
Purchase of treasury shares	(1.044)	(14.186)			(15.230)		(15.230)
Effects of profit or loss and dividend from subsidiaries			(51.703)	51.703			
Dividend (0.10 US cent per share) ...				(5.044)	(5.044)		(5.044)
Equity 30 June 2017	39.532	140.519	54.805	289.387	524.243	1.278	525.521
 1 January to 30 June 2018							
Equity 1.1.2018	39.532	140.519	127.407	282.739	590.197	1.338	591.535
Impact of IFRS 15 implementation ...				5.010	5.010		5.010
Restated Equity 1.1.2018	39.532	140.519	127.407	287.749	595.207	1.338	596.545
Total comprehensive loss			8.225	(60.280)	(52.055)	(7)	(52.062)
Purchase of treasury shares	(479)	(7.006)			(7.485)		(7.485)
Effects of profit or loss and dividend from subsidiaries			(54.389)	54.389			
Dividend (0.15 US cent per share) ...				(7.254)	(7.254)		(7.254)
Equity 30 June 2018	39.053	133.513	81.243	274.604	528.413	1.331	529.744

Information on changes in reserves are provided in note 11.

The notes on pages 8 to 20 are an integral part of these interim consolidated financial statements.

Consolidated Statement of Cash Flows for the six months ended 30 June 2018

	Note:	2018	2017	2018	2017
		1.4.-30.6.	1.4.-30.6. *Restated	1.1.-30.6	1.1.-30.6 *Restated
Cash flows from operating activities					
(Loss) profit for the period .....	(	25.728)	9.910	(60.256)	(19.974)
Adjustments for:					
Depreciation and amortisation		34.491	30.850	62.493	56.737
Expensed deferred cost		2.925	2.516	4.923	4.457
Net finance costs		11.975	(1.959)	10.567	(15)
Gain on the sale of operating assets .....	(	116)	345	(3.210)	275
Share in profit of associates .....	(	293)	(60)	(1.559)	(531)
Tax expense .....	(	5.752)	1.835	(14.763)	(5.619)
		<u>17.502</u>	<u>43.437</u>	<u>(1.805)</u>	<u>35.330</u>
Changes in:					
Inventories, (increase) decrease .....	(	1.773)	1.167	(3.697)	21
Trade and other receivables, decrease (increase)		5.874	(46.844)	(76.884)	(54.522)
Trade and other payables, increase		27.464	77.676	56.605	80.787
Deferred income, increase		17.384	22.772	167.844	172.154
Cash generated from operating activities		<u>48.949</u>	<u>54.771</u>	<u>143.868</u>	<u>198.440</u>
Interest received		126	950	841	1.165
Interest paid .....	(	3.889)	(4.105)	(9.043)	(8.348)
Income taxes paid .....	(	2.626)	(4.252)	(6.684)	(10.289)
Net cash from operating activities		<u>60.062</u>	<u>90.801</u>	<u>127.177</u>	<u>216.298</u>
Cash flows used in investing activities:					
Acquisition of operating assets .....	(	41.917)	(35.647)	(178.899)	(80.407)
Proceeds from the sale of operating assets		651	148	52.808	308
Acquisition of intangible assets .....	(	854)	(1.900)	(1.518)	(3.580)
Capitalised deferred cost .....	(	165)	(101)	(1.397)	(941)
Non-current receivables, change .....	(	19.472)	(12.421)	(51.438)	(41.657)
Marketable securities, change		896	(1.376)	(9.576)	(802)
Net cash used in investing activities	(	<u>60.861)</u>	<u>(51.297)</u>	<u>(190.020)</u>	<u>(127.079)</u>
Cash flows from (used in) financing activities:					
Purchase of treasury shares		0	(5.211)	(7.483)	(15.230)
Dividend paid .....	(	7.256)	0	(7.256)	(5.044)
Proceeds from non-current borrowing		99.795	0	99.795	40.000
Repayment of non-current borrowings .....	(	1.611)	(2.310)	(4.275)	(6.005)
Proceeds from short term borrowings .....	(	38.516)	1.105	2.433	3.383
Net cash from (used in) financing activities		<u>52.412</u>	<u>(6.416)</u>	<u>83.214</u>	<u>17.104</u>
Increase in cash and cash equivalents		51.613	33.088	20.371	106.323
Effect of exchange rate fluctuations on cash held .....	(	1.812)	2.762	(504)	2.810
Cash and cash equivalents at beginning of the period		191.257	300.172	221.191	226.889
Cash and cash equivalents at 30 June		<u>241.058</u>	<u>336.022</u>	<u>241.058</u>	<u>336.022</u>
Investment and financing without cash flow effect:					
Acquisition of operating assets .....	(	11.770)	0	(64.276)	0
Non-current receivables		0	0	52.506	0
Dividend issued		7.254	0	0	0
Trade and other payables		4.516	0	11.770	0

The notes on pages 8 to 20 are an integral part of these interim consolidated financial statements.

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates. The Group primarily operates in the airline transportation and tourism industry. The Company is listed on the Nasdaq OMX Iceland.

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

2. Basis of accounting

These interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2017. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2017.

These interim financial statements were approved for issue by the Board of Directors on 31 July 2018.

3. Use of judgements and estimates

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

Other than those stated in note 4, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017.

a. Measurement of fair values

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

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

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

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

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

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

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

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

Notes, continued:

4. Changes in accounting policies

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

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

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

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

a. Service fees

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

b. Change fees

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

c. Package tours

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

d. Commission, credit card fees and booking fees

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

e. Impacts on financial statements

(i) Consolidated Statement of Financial Position

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

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

Notes, continued:

4. Changes in accounting policies (continued).	31.12.2017 Original	Adjustment IFRS 15	31.12.2017 Restated
Equity and liabilities			
Equity			
Retained earnings	282.739	5.010	287.749
Total equity	<u>591.535</u>	<u>5.010</u>	<u>596.545</u>
Non-current liabilities			
Deferred tax liabilities	59.633	1.252	60.885
Total non-current liabilities	<u>357.126</u>	<u>1.252</u>	<u>358.378</u>
Current liabilities			
Deferred income	223.571	2.490	226.061
Total current liabilities	<u>466.429</u>	<u>2.490</u>	<u>468.919</u>
Total equity and liabilities	<u>1.415.090</u>	<u>8.752</u>	<u>1.423.842</u>

(ii) Consolidated Statement of Comprehensive Income

The following table shows the change to the line items of the 30 June 2017 Consolidated Statement of Comprehensive Income.

	2017 1.4.-30.6. Original	Adjustment IFRS 15	2017 1.4.-30.6. Restated
Operating income			
Transport revenue	272.684	(1.587)	271.097
Total operating income	<u>368.887</u>	<u>(1.587)</u>	<u>367.300</u>
Operating expenses			
Other operating expenses	85.005	95	85.100
Total operating expenses	<u>326.630</u>	<u>95</u>	<u>326.725</u>
Operating profit before depr. and amortisation (EBITDA)	42.257	(1.682)	40.575
Profit before income tax	13.427	(1.682)	11.745
Income tax	(2.171)	336	(1.835)
Profit for the period	<u>11.256</u>	<u>(1.346)</u>	<u>9.910</u>

	2017 1.1.-30.6. Original	Adjustment IFRS 15	2017 1.1.-30.6. Restated
Operating income			
Transport revenue	421.740	(1.884)	419.856
Total operating income	<u>591.259</u>	<u>(1.884)</u>	<u>589.375</u>
Operating expenses			
Other operating expenses	155.811	(6.466)	149.345
Total operating expenses	<u>565.243</u>	<u>(6.466)</u>	<u>558.777</u>
Operating profit before depr. and amortisation (EBITDA)	26.016	4.582	30.598
Loss before income tax	(30.175)	4.582	(25.593)
Income tax	6.536	(917)	5.619
Loss for the period	<u>(23.639)</u>	<u>3.665</u>	<u>(19.974)</u>

(iii) Consolidated Statement of Cash Flows

As the effects on cash flows are insignificant they are not shown.

Notes, continued:

4. Changes in accounting policies (continued).

(iv) Impact of adopting IFRS 15 on the Group's interim Consolidated Statement of Comprehensive Income as at 30 June 2018

The following table shows the impact by the adoption of IFRS 15 on the Consolidated Statement of Comprehensive Income for the three months 1 April to 30 June 2018:

	Amounts without adoption of IFRS 15	Adjustment IFRS 15	2018 1.4.-30.6. As reported
Operating income			
Transport revenue	286.928	272	287.200
Total operating income	<u>398.634</u>	<u>272</u>	<u>398.906</u>
Operating expenses			
Other operating expenses	96.769	(16)	96.753
Total operating expenses	<u>384.229</u>	<u>(16)</u>	<u>384.213</u>
Operating loss before depr. and amortisation (EBITDA)	14.405	288	14.693
Loss before income tax	(31.768)	288	(31.480)
Income tax	5.810	(58)	5.752
Loss for the period	<u>(25.958)</u>	<u>230</u>	<u>(25.728)</u>

The following table shows the impact by the adoption of IFRS 15 on the Consolidated Statement of Comprehensive Income for the six months ended 30 June 2018:

4. Changes in accounting policies (continued).

(iv) Impact of adopting IFRS 15 on the Group's interim Consolidated Statement of Comprehensive Income as at 30 June 2018 (continued).

	Amounts without adoption of IFRS 15	Adjustment IFRS 15	2018 1.1.-30.6. As reported
Operating income			
Transport revenue	458.433	(438)	457.995
Total operating income	<u>666.963</u>	<u>(438)</u>	<u>666.525</u>
Operating expenses			
Other operating expenses	175.495	(6.733)	168.762
Total operating expenses	<u>676.776</u>	<u>(6.733)</u>	<u>670.043</u>
Operating loss before depr. and amortisation (EBITDA)	(9.813)	6.295	(3.518)
Loss before income tax	(81.314)	6.295	(75.019)
Income tax	16.022	(1.259)	14.763
Loss for the period	<u>(65.292)</u>	<u>5.036</u>	<u>(60.256)</u>

Notes, continued:

5. Operating segments

Segment information is presented in the consolidated financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure and is divided into three segments; Route network, Tourism services and Shared services.

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

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

International flight operations

The International flight operations are based on the Hub and Spoke concept between Europe and North America via Iceland, leveraging Iceland's geographical position. This successful strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed Icelandair to constantly grow and expand its route network over the past years. In 2017 Icelandair's international route networking connected 18 Cities in North America with 29 Cities in Europe and by that offering connectivity between 450 city pairs within the network. Additionally the route network is an invaluable asset for the Icelandic Tourism offering direct flights to Iceland from around 50 cities. Icelandic people and businesses also utilize the network and make a constant use of the frequent and diverse connections to Europe and North America.

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

Aviation investments

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

Tourism investments

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

Geographic information

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

	2018	2017
	1.1.-30.6.	1.1.-30.6.
<i>Revenues</i>		
North America	32%	37%
Iceland	30%	27%
West Continental Europe	9%	12%
Scandinavia	6%	7%
United Kingdom	9%	8%
Other	14%	9%
Total revenues	<u>100%</u>	<u>100%</u>

Notes, continued:

5. continued:

Reportable segments for the six months ended 30 June 2018

	International flight operations	Aviation investment	Tourism investment	Total
External revenue	477.050	100.000	89.475	666.525
Inter-segment revenue	47.672	3.557	4.446	55.675
Segment revenue	<u>524.722</u>	<u>103.557</u>	<u>93.921</u>	<u>722.200</u>
Segment EBITDAR*	(4.190)	20.924	5.244	21.978
Operating lease expenses	(5.755)	(12.308)	(7.433)	(25.496)
Segment EBITDA	<u>(9.945)</u>	<u>8.616</u>	<u>(2.189)</u>	<u>(3.518)</u>
Finance income	1.216	1.086	65	2.367
Finance costs	(10.833)	(1.107)	(994)	(12.934)
Depreciation and amortisation	(54.033)	(5.202)	(3.258)	(62.493)
Share of profit of equity accounted investees	1.553	0	6	1.559
Reportable segment (loss) profit before tax ...	<u>(72.042)</u>	<u>3.393</u>	<u>(6.370)</u>	<u>(75.019)</u>
Reportable segment assets	2.048.324	134.222	83.087	2.265.633

Reportable segments for the six months ended 30 June 2017 (restated)

External revenue	432.169	74.377	82.829	589.375
Inter-segment revenue	89.031	3.531	5.808	98.370
Segment revenue	<u>521.200</u>	<u>77.908</u>	<u>88.637</u>	<u>687.745</u>
Segment EBITDAR*	29.316	14.518	3.045	46.879
Operating lease expenses	(4.279)	(7.154)	(4.848)	(16.281)
Segment EBITDA	<u>25.037</u>	<u>7.364</u>	<u>(1.803)</u>	<u>30.598</u>
Finance income	10.533	580	21	11.134
Finance costs	(6.018)	(4.068)	(1.033)	(11.119)
Depreciation and amortisation	(48.924)	(5.157)	(2.656)	(56.737)
Share of profit of equity accounted investees	400	0	131	531
Reportable segment profit (loss) before tax ...	<u>(18.972)</u>	<u>(1.281)</u>	<u>(5.340)</u>	<u>(25.593)</u>
Reportable segment assets	1.971.158	107.752	77.552	2.156.462

*EBITDAR means EBITDA before operating lease expenses.

Notes, continued:

5. continued:

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

	2018 1.1.-30.6.	2017 1.1.-30.6.
Revenue		
Total revenue for reportable segments	722.200	687.745
Elimination of inter-segment revenue	(55.675)	(98.370)
Consolidated revenue	<u>666.525</u>	<u>589.375</u>
Profit or loss		
Total loss of reportable segments	(75.019)	(25.593)
Consolidated loss before tax	<u>(75.019)</u>	<u>(25.593)</u>

Other material items	Reportable segment totals	Adjust- ments	Consoli- dated totals
1.1.-30.6.2018			
Segment EBITDAR	21.978		21.978
Segment EBITDA	(3.518)		(3.518)
Finance income	2.367	(1.003)	1.364
Finance costs	(12.934)	1.003	(11.931)
Depreciation and amortisation	(62.493)		(62.493)
Share of profit of associates	1.559		1.559
Capital expenditure	181.814		181.814
1.1.-30.6.2017			
Segment EBITDAR	46.879		46.879
Segment EBITDA	30.598		30.598
Finance income	11.134	(3.366)	7.768
Finance costs	(11.119)	3.366	(7.753)
Depreciation and amortisation	(56.737)		(56.737)
Share of loss of associates	531		531
Capital expenditure	84.928		84.928

Notes, continued:

6. Assets held for sale

Management has committed to a plan to sell its hotel operation by end of 2018, following a strategic decision to place greater focus on the Group's key competencies – i.e. the airline industry.

The hotel operation was not previously classified as held-for-sale or as a discontinued operation. As the hotel operation is deemed being immaterial on the Consolidated Statement of Comprehensive Income, it is included and not shown separately as discontinued operations. In the Consolidated Statement of Financial Position, assets and liabilities of this segment are shown as classified held for sale. Comparative amounts have not been re-presented. The impact on the financial statements as a whole is presented below.

a. Impacts on financial statements

(i) Comprehensive income for the hotel operation

	2018	2017	2018	2017
	1.4.-30.6.	1.4.-30.6.	1.1.-30.6.	1.1.-30.6.
Revenue	29.349	25.869	51.264	45.972
Elimination of inter-segment revenue	(4.174)	(4.013)	(6.887)	(6.254)
External revenue	25.175	21.856	44.377	39.718
Expenses	(29.416)	(25.609)	(54.914)	(47.779)
Elimination of expenses of inter-segment sales	4.174	4.013	6.887	6.254
External expenses	(25.242)	(21.596)	(48.027)	(41.525)
(Loss) profit from operating activities	(67)	260	(3.650)	(1.807)
Income tax	28	(55)	730	356
(Loss) profit from hotel operations, net of tax	(39)	205	(2.920)	(1.451)
Basic loss per share in US cent per share	0	0	(0,06)	(0,03)
Diluted loss per share in US cent per share	0	0	(0,06)	(0,03)

(ii) Cash flows used in hotel operation

	2018	2017	2018	2017
	1.1.-30.6.	1.1.-30.6.	1.1.-30.6.	1.1.-30.6.
Net cash used in operating activities	(2.238)	(219)	(2.092)	(1.021)
Net cash used in investing activities	(5.524)	(1.603)	(10.856)	(8.612)
Net cash from financing activities	9.402	2.332	9.728	3.480
Net cash flows for the period	1.640	510	(3.220)	(6.153)

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

The assets and liabilities of the hotel operation are presented as held for sale in the Consolidated Statements of Financial Position as of June 30, 2018. An aircraft which is not part of hotel operation, was held for sale at year end 2017 and was sold in June 2018. The carrying amounts of the major classes of assets and liabilities were as follows:

	30.6.2018	31.12.2017
Operating assets	105.753	7.500
Intangible assets and goodwill	5.500	0
Investments in associates	1.073	0
Inventories	870	0
Trade and other receivables	16.442	0
Cash and cash equivalents	3.886	0
Deferred tax liabilities	(1.799)	0
Loans and borrowings	(39.478)	0
Trade and other payables	(10.527)	0
Deferred income	(5.529)	0
Net assets and liabilities	76.191	7.500

Notes, continued:

7. Operating income

Transport revenue is specified as follows:

	2018	Restated 2017	2018	Restated 2017
	1.4.-30.6.	1.4.-30.6.	1.1.-30.6	1.1.-30.6
Passengers	272.928	256.960	428.738	393.758
Cargo and mail	14.272	14.137	29.257	26.098
Total transport revenue	<u>287.200</u>	<u>271.097</u>	<u>457.995</u>	<u>419.856</u>

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

Other operating revenue is specified as follows:

Sale at airports and hotels	32.360	25.522	54.540	47.092
Revenue from tourism	34.970	36.522	59.705	56.325
Aircraft and cargo handling services	6.940	5.246	12.693	9.244
Maintenance revenue	811	1.097	1.630	1.749
Gain (loss) on sale of operating assets	116	(70)	3.210	0
Other operating revenue	6.935	7.454	13.784	14.050
Total other operating revenue	<u>82.132</u>	<u>75.771</u>	<u>145.562</u>	<u>128.460</u>

8. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	96.830	83.692	169.937	140.240
Salary-related expenses	28.694	23.503	52.044	39.326
Other personnel expenses	19.461	18.592	36.133	32.482
Total salaries and personnel expenses	<u>144.985</u>	<u>125.787</u>	<u>258.114</u>	<u>212.048</u>

Aviation expenses are specified as follows:

Aircraft fuel	77.340	60.484	126.887	98.341
Aircraft lease	8.870	5.238	17.174	10.813
Aircraft handling, landing and communication	36.626	31.863	60.795	52.149
Aircraft maintenance expenses	19.639	18.253	38.311	36.081
Total aviation expenses	<u>142.475</u>	<u>115.838</u>	<u>243.167</u>	<u>197.384</u>

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures	9.383	7.342	18.080	13.851
Communication	8.128	6.721	14.011	12.700
Advertising	7.500	6.730	16.083	15.220
Booking fees and commission expenses	16.575	16.304	26.787	25.841
Cost of goods sold	8.366	7.361	14.401	13.232
Customer services	13.862	8.831	22.434	15.017
Tourism expenses	22.216	22.731	38.194	35.448
Allowance for bad debt	899	360	(18)	536
Other operating expenses	9.824	8.720	18.790	17.500
Total other operating expenses	<u>96.753</u>	<u>85.100</u>	<u>168.762</u>	<u>149.345</u>

Notes, continued:

9. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2018 1.4.-30.6.	2017 1.4.-30.6.	2018 1.1.-30.6	2017 1.1.-30.6
Interest income on bank deposits	338	511	769	664
Other interest income	241	1.076	595	1.535
Net foreign exchange gain	0	4.715	0	5.569
Finance income total	<u>579</u>	<u>6.302</u>	<u>1.364</u>	<u>7.768</u>
Interest expenses on loans and borrowings	4.475	4.026	8.425	7.209
Other interest expenses	255	317	498	544
Net foreign exchange loss	7.824	0	3.008	0
Finance costs total	<u>12.554</u>	<u>4.343</u>	<u>11.931</u>	<u>7.753</u>
Net finance (costs) income	<u>(11.975)</u>	<u>1.959</u>	<u>(10.567)</u>	<u>15</u>

10. Operating assets

Acquisition of operating assets in the first six months of 2018 amounted to USD 243.2 million. Included are 3 Boeing 737 Max8 aircraft, 2 Boeing 757 aircraft, 1 Boeing 767 aircraft, overhaul of own engines and aircraft spare parts in the amount of USD 209.3 million.

11. Equity

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Other reserves	Total reserves
Reserves 1.1.2017	16.423	34.524	63.902	114.849
Changes during the period	<u>(16.583)</u>	<u>8.242</u>	<u>(51.703)</u>	<u>(60.044)</u>
Reserves 30.6.2017	<u>(160)</u>	<u>42.766</u>	<u>12.199</u>	<u>54.805</u>
Reserves 1.1.2018	13.914	42.240	71.253	127.407
Changes during the period	<u>13.758</u>	<u>(5.533)</u>	<u>(54.389)</u>	<u>(46.164)</u>
Reserves 30.6.2018	<u>27.672</u>	<u>36.707</u>	<u>16.864</u>	<u>81.243</u>

12. Loans and borrowings

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

	30.6.2018	31.12.2017
Non-current loans and borrowings are specified as follows:		
Secured bank loans	121.117	65.786
Unsecured loans	222.216	223.755
	<u>343.333</u>	<u>289.541</u>
Current maturities	<u>(14.692)</u>	<u>(9.287)</u>
Total non-current loans and borrowings	<u>328.641</u>	<u>280.254</u>

Terms and debt repayment schedule:

		Nominal interest rates	Year of maturity	Total remaining balance	
	Currency			30.6.2018	31.12.2017
Secured bank loans	USD	1,9%	2018-2028	41.954	12.202
Secured bank loans	EUR	1,1%	2026-2028	71.541	7.285
Secured bank loans	ISK	6,4%	2036	2.567	41.146
Secured bank loans, indexed	ISK			0	1.706
Unsecured bond issue	USD	5,6%	2020-2021	212.533	212.361
Unsecured bond issue, indexed	ISK	5,7%	2023	9.683	11.394
Secured bank loans - short term	USD	5,4%	2018	5.055	3.447
Total interest-bearing liabilities				<u>343.333</u>	<u>289.541</u>

Notes, continued:

13. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	2018	2017
Repayments in 2018 (6 months)(2017: 12 months)	9.483	9.287
Repayments in 2019	8.399	41.723
Repayments in 2020	32.305	27.015
Repayments in 2021	198.923	193.534
Repayments in 2022	13.068	7.573
Subsequent repayments	81.155	10.409
Total loans and borrowings	343.333	289.541

14. Financial instruments and fair values

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

	30.6.2018		31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives, included in loans and receivables	34.594	34.594	17.067	17.067
Short term investments	13.662	13.662	4.087	4.087
Unsecured bond issue	(222.216)	(240.179)	(223.755)	(246.238)
Secured loans	(121.117)	(115.892)	(65.786)	(27.765)
Total	(295.077)	(307.815)	(268.387)	(252.849)

15. Off-balance sheet items

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

				Total
	Real estate	Aircraft	Other	30.6.2018
In Q3 - Q4 2018	16.065	12.270	6.385	34.720
In the year 2019	20.847	28.581	4.759	54.187
In the year 2020	27.759	29.264	4.332	61.355
In the year 2021	26.612	24.108	3.074	53.794
In the year 2022	26.330	22.578	3.140	52.048
Subsequent	300.763	86.050	39.638	426.451
Total	418.376	202.851	61.328	682.555

Notes, continued:

16. Capital commitments

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

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

The delivery plan is as follows:

	2019	2020	2021
Boeing 737 Max 8	3	2	1
Boeing 737 Max 9	3	3	1
Total	<u>6</u>	<u>5</u>	<u>2</u>

17. Group entities

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

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

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

Notes, continued:

18. Ratios

The Group's primary ratios are specified as follows:

	30.6.2018	31.12.2017
Current ratio	0,99	0,99
Equity ratio	0,32	0,42
Intrinsic value of share capital	13,56	15,08

19. Significant accounting policies

The accounting policies and methods of computation applied in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2017 except for the changes stated in note 4.

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