

ICELANDAIR



Condensed

Consolidated Interim

Financial Statements



2 1 January—30 June 2022

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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 2022 have been prepared in accordance with International Financial Reporting Standards (IFRS) 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". All amounts are stated in thousands of USD.

According to the Consolidated Statement of Comprehensive Income, loss for the period from 1 January to 30 June 2022 amounted to USD 45.9 million. Total comprehensive loss for the period was USD 43.3 million. Equity at 30 June 2022 amounted to USD 203.5 million according to the Consolidated Statement of Financial Position and share capital amounted to USD 287.0 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 2022 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Icelandic disclosure requirements for Consolidated Financial Statements of listed companies. The Condensed Consolidated Interim Financial Statements have neither been audited nor reviewed by the Company's independent auditors.

There was significant turnaround in Icelandair's operations in the second quarter of 2022. The profit amounted to USD 3.8 million, despite average fuel prices more than doubling between years. EBIT was positive by USD 1.2 million and increased by USD 63.4 million year-on-year. Improved load factor and higher yields through disciplined network planning and focused revenue management, along with improved utilization of the Company's infrastructure due to more production, are the main drivers behind the turnaround.

The size of the route network grew fivefold compared to Q2 2021 and production levels reached 76% of the same quarter in 2019. The total number of passengers was 990 thousand, up from 154 thousand in 2021. The load factor was 78.5% and improved significantly from 47.3% in the same quarter last year.

The market "to" Iceland was the largest market with 39% of total passengers. The "via" market, continued to recover and accounted for 37% of total passengers compared to only 11% of total passengers in Q2 2021. Passengers in the home market travelling "from" Iceland accounted for 16% of passengers and domestic passengers "within" Iceland accounted for 7%.

On-time performance was 76% and was negatively affected by disruptions in the route network, especially in the month of June. The disruptions are mainly a result of challenging conditions at international airports and delays of aircraft out of maintenance due to global supply chain challenges that impacted the availability of aircraft parts. Icelandair's extensive flight schedule this summer, with high frequency of flights and diverse departure times within each day, has been a major factor in being able to minimize the impact these disruptions have on passengers.

The cargo business continued to positively contribute to the Company's performance in Q2 2022. Freight volume, measured in Freight Ton Kilometers (FTK), increased by 4% year-on-year driven by increased imports to Iceland while exports declined somewhat. Cargo operations were strong during the quarter however profitability suffered compared to last year mainly due to the steep increase in fuel prices. The leasing operation was profitable in Q2 2022, despite sold block hours slightly decreasing year-on-year by 6%.

Operating expenses increased significantly in the quarter due to the increase in production compared to the second quarter 2021. Training and maintenance activities in preparation for the peak season further impacted operating expenses. The average number of full-time employees was 3,188 in Q2 2022, 1,405 higher than Q2 last year. A total of 962 new employees were recruited in Q2, including pilots, cabin crew and ground handling staff who all underwent training during the quarter.

A 124% rise in the average fuel price year-on-year significantly increased fuel costs and resulted in fuel expenses being 35% of total cost in the quarter compared to 17% last year. The average world market price was USD 1,292 per metric ton, as compared to USD 576 per metric ton in the second quarter of 2021. Fuel hedges covered 25% of the consumption during the quarter at an average price of USD 664 per metric ton. A larger B737 MAX fleet had positive effect on fuel expenses and saved USD 21 million in fuel cost compared to the B757's which have been replaced.

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

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

Current fuel hedge levels equal 25% of the estimated consumption in Q3 2022 and 25% of the estimated consumption in Q4 2022. Majority of the Q3 hedge or 20.2% is at an average price of USD 935. The remaining 4.8% in Q3 and the entire 25% in Q4 is hedged through a 4-way option collar. The 4-way structure provides upside protection from USD 1,300 and downside risk from USD 1,077 per hedged ton.

The Company has set clear and ambitious goals of reducing its carbon emissions by 50% per operational ton kilometer (OTK) by 2030 and to achieve net zero emission by 2050. In the second quarter, Icelandair reduced its CO2 emission by 24% per OTK compared to Q2 2021. This was achieved through improved load factor and a larger proportion of substantially more fuel efficient B737 MAX aircraft within the fleet.

Icelandair's liquidity position was strong at the end of the second quarter with cash, cash equivalents and marketable securities amounting to USD 411 million an increase of USD 148 million from the beginning of the year. Additionally, the Company had undrawn committed credit lines in the amount of USD 52 million bringing the total liquidity to USD 463 million.

Bookings for the third quarter are strong; driven by pent-up travel demand for the destination Iceland and a healthy transatlantic market. Last minute capacity reductions of major European airlines, caused by operating challenges and industrial actions, have consolidated strong demand for less capacity benefiting Icelandair. RASK in the third quarter is expected to improve compared to the second quarter. Q4 2022 is also showing signs of strength giving rise to cautious optimism despite the on-going geopolitical and economic uncertainty. Icelandair's flight schedule is expected to reach around 83% of 2019 levels in Q3 2022 and around 90% of 2019 levels in Q4 2022.

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 2022, its assets, liabilities and consolidated financial position as at 30 June 2022 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 2022 and confirm them by means of their signatures.

Reykjavík, 21 July 2022.

Board of Directors:

Guðmundur Hafsteinsson, Chairman of the Board
Nina Jonsson
John F. Thomas
Matthew Evans
Svafa Grönfeldt

CEO:

Bogi Nils Bogason

Consolidated Income Statement and other Comprehensive Income for the period from 1 January to 30 June 2022

	Notes	2022 Q2	2021 Q2	2022 YTD	2021 YTD
Operating income					
Transport revenue	6	298.072	56.662	423.274	93.506
Aircraft and aircrew lease		13.792	7.804	27.465	18.813
Other operating revenue	6	17.081	13.057	36.871	22.532
		<u>328.945</u>	<u>77.524</u>	<u>487.610</u>	<u>134.852</u>
Operating expenses					
Salaries and salary related expenses		83.869	52.503	150.031	87.793
Aviation expenses		156.870	39.027	235.839	60.422
Other operating expenses		60.599	22.934	105.862	41.629
	7	<u>301.338</u>	<u>114.464</u>	<u>491.732</u>	<u>189.844</u>
Operating profit (loss) before depreciation and amortization (EBITDA)					
		27.607	(36.940)	(4.122)	(54.992)
Depreciation and amortization	8	(26.401)	(25.292)	(53.010)	(53.449)
Operating profit (loss) (EBIT)					
		1.206	(62.232)	(57.133)	(108.441)
Finance income		1.504	5.290	3.166	7.404
Finance costs		(9.895)	(4.183)	(15.384)	(8.383)
Fair value changes		9.950	(5.626)	9.605	3.973
Net finance income (loss)	9	<u>1.559</u>	<u>(4.519)</u>	<u>(2.613)</u>	<u>2.994</u>
Share of loss of associates, net of tax		(632)	(1.181)	(618)	(2.645)
Profit (loss) before tax (EBT)					
		2.133	(67.932)	(60.365)	(108.093)
Income tax		1.669	12.993	14.464	23.055
Profit (loss) for the period					
		<u>3.802</u>	<u>(54.939)</u>	<u>(45.901)</u>	<u>(85.038)</u>
Other comprehensive loss:					
Currency translation differences		(4.788)	1.609	(2.617)	1.701
Net (loss) profit on hedge of investment, net of tax		(1.490)	1.096	(687)	1.166
Cash flow hedges - effective portion of changes in fair value, net of tax		(14.437)	8.617	(11.028)	16.249
Cash flow hedges - reclassified to profit or loss		13.410	(1.659)	16.977	(3.060)
Other comprehensive (loss) profit for the period					
		<u>(7.305)</u>	<u>9.663</u>	<u>2.645</u>	<u>16.056</u>
Total comprehensive loss for the period					
		<u>(3.505)</u>	<u>(45.276)</u>	<u>(43.256)</u>	<u>(68.982)</u>
Profit (loss) attributable to:					
Owners of the Company		3.622	(54.907)	(46.274)	(84.967)
Non-controlling interest		180	(32)	373	(71)
Profit (loss) for the period					
		<u>3.802</u>	<u>(54.939)</u>	<u>(45.901)</u>	<u>(85.038)</u>
Total comprehensive loss attributable to:					
Owners of the Company		(2.834)	(45.243)	(42.885)	(68.911)
Non-controlling interest		(673)	(32)	(372)	(72)
Total comprehensive loss for the period					
		<u>(3.505)</u>	<u>(45.276)</u>	<u>(43.256)</u>	<u>(68.982)</u>
Earnings per share:					
Basic earnings per share in US cent per share		0,02	(0,19)	(0,12)	(0,29)
Diluted earnings per share in US cent per share		0,02	(0,19)	(0,12)	(0,29)

The notes on pages 9 to 16 are an integral part of these Interim Consolidation Financial Statements.

Consolidated Statement of Financial Position as at 30 June 2022

	Notes	30.6.2022	31.12.2021
Assets			
Operating assets		441.766	391.293
Right-of-use assets		282.031	224.794
Intangible assets and goodwill		55.378	55.614
Investments in associates		10.796	11.592
Receivables and deposits		20.665	18.987
Deferred tax asset		73.644	60.647
Non-current assets		<u>884.280</u>	<u>762.927</u>
Inventories		24.213	24.398
Derivatives used for hedging		8.265	2.853
Trade and other receivables		184.970	118.417
Marketable securities		43.465	58.197
Cash and cash equivalents		367.556	204.767
Current assets		<u>628.468</u>	<u>408.632</u>
Total assets		<u>1.512.748</u>	<u>1.171.559</u>
Equity			
Share capital		286.964	272.204
Share premium		37.385	34.178
Reserves		28.139	24.116
Accumulated deficit		(147.089)	(105.876)
Equity attributable to equity holders of the Company		<u>205.399</u>	<u>224.622</u>
Non-controlling interest		(1.866)	(2.238)
Total equity		<u>203.533</u>	<u>222.384</u>
Liabilities			
Loans and borrowings	10	228.099	222.139
Lease liabilities	11	263.340	212.042
Payables		33.184	23.384
Non-current liabilities		<u>524.623</u>	<u>457.565</u>
Loans and borrowings	10	56.185	35.646
Lease liabilities	11	40.335	33.617
Warrants	12	2.538	18.395
Derivatives used for hedging		0	1.136
Trade and other payables		221.166	143.736
Deferred income	13	464.368	259.080
Current liabilities		<u>784.592</u>	<u>491.610</u>
Total liabilities		<u>1.309.215</u>	<u>949.175</u>
Total equity and liabilities		<u>1.512.748</u>	<u>1.171.559</u>

The notes on pages 9 to 16 are an integral part of these Interim Consolidation Financial Statements.

Consolidated Statement of Changes in Equity for the period from 1 January to 30 June 2022

	Attributable to equity holders of the Company								Non-con- trolling interest	Total equity
	Reserves						Total			
	Share capital	Share premium	Hedging reserve	Translation reserve	Other reserves	Accumulated deficit				
1 January to 30 June 2021										
Equity 1 January 2021	212.969	13.208	(31.999)	23.679	16.693	0	234.550	(1.741)	232.809	
Loss for the period						(84.967)	(84.967)	(72)	(85.038)	
Currency translation differences				1.701			1.701		1.701	
Net profit on hedge of investment, net of tax				1.166			1.166		1.166	
Effective portion of changes in fair value of cash flow hedges, net of tax			13.189				13.189		13.189	
Effects of profit or loss and of subsidiaries and associates					1.912	(1.912)	0		0	
Equity 30 June 2021	212.969	13.208	(18.810)	26.546	18.605	(86.877)	165.640	(1.813)	163.827	
1 January to 30 June 2022										
Equity 1 January 2022	272.204	34.178	92	4.970	19.054	(105.876)	224.622	(2.238)	222.384	
Shares issued	14.760	3.207					17.967		17.967	
Warrants exercised						6.439	6.439		6.439	
Loss for the period						(46.274)	(46.274)	373	(45.901)	
Currency translation differences				(2.617)			(2.617)		(2.617)	
Net loss on hedge of investment, net of tax				(687)			(687)		(687)	
Effective portion of changes in fair value of cash flow hedges, net of tax			5.949				5.949		5.949	
Effects of profit or loss and of subsidiaries and associates					1.378	(1.378)	0		0	
Equity 30 June 2022	286.964	37.385	6.041	1.666	20.432	(147.089)	205.399	(1.866)	203.533	

The notes on pages 9 to 16 are an integral part of these Interim Consolidation Financial Statements.

Consolidated Statement of Cash Flows for the six months ended 30 June 2022

	Notes	2022 Q2	2021 Q2	2022 YTD	2021 YTD
Cash flows from (to) operating activities					
Profit (loss) for the period		3.802	(54.939)	(45.901)	(85.038)
Adjustments for:					
Depreciation and amortization	8	26.401	25.292	53.010	53.449
Expensed deferred cost		5.179	3.415	10.015	5.851
Net finance cost		8.391	(1.107)	12.218	979
Changes in fair value		(9.950)	5.626	(9.605)	(3.973)
Gain on sale of operating assets		(278)	(3.800)	(1.537)	(6.296)
Share in loss of associates		632	1.181	618	2.645
Deferred income tax		(1.669)	(12.993)	(14.464)	(23.055)
		<u>32.508</u>	<u>(37.325)</u>	<u>4.354</u>	<u>(55.438)</u>
Changes in:					
Inventories		577	552	134	1.535
Trade and other receivables		(4.979)	(30.123)	(78.378)	(47.661)
Trade and other payables		38.912	32.654	84.635	10.987
Deferred income		60.057	104.045	204.682	118.948
		<u>94.567</u>	<u>107.128</u>	<u>211.073</u>	<u>83.809</u>
Interest received		602	133	1.275	283
Interest paid		(5.964)	(4.911)	(11.109)	(8.923)
Net cash from operating activities		<u>121.713</u>	<u>65.025</u>	<u>205.593</u>	<u>19.731</u>
Cash flows to investing activities:					
Acquisition of operating assets		(29.968)	(151.457)	(194.969)	(157.840)
Proceeds from sale of operating assets		7.786	169.563	109.968	181.360
Deferred cost		(431)	(500)	(1.028)	(2.485)
Acquisition of intangible assets		(87)	(206)	(293)	(237)
Investment in associates		(38)	(1.759)	(38)	(1.759)
Non-current receivables, change		(1.889)	6.324	6.422	6.533
Cash attributable to assets held for sale		0	(2.128)	0	(2.579)
Marketable securities, change		17.418	25.018	13.997	10.911
Net cash (used in) from investing activities		<u>(7.209)</u>	<u>44.855</u>	<u>(65.941)</u>	<u>33.904</u>
Cash flows from financing activities:					
Shares issued		0	0	17.967	0
Proceeds from non-current borrowings		0	0	42.002	3.229
Repayment of non-current borrowings		(5.905)	(3.689)	(18.804)	(10.438)
Repayment of lease liabilities		(9.063)	(4.575)	(17.865)	(8.934)
Net cash (used in) from financing activities		<u>(14.968)</u>	<u>(8.264)</u>	<u>23.300</u>	<u>(16.143)</u>
Change in cash and cash equivalents		99.536	101.616	162.952	37.492
Effect of exchange rate fluctuations on cash held		(476)	418	(163)	351
Cash and cash equivalents at beginning of the period		268.496	53.466	204.767	117.657
Cash and cash equivalents at period end		367.556	155.500	367.556	155.500

The notes on pages 9 to 16 are an integral part of these Interim Consolidation Financial Statements.

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is at Reykjavíkurlugvöllur in Reykjavík, Iceland. The Condensed Consolidated Interim Financial Statements of the Company as at and for the six months ended 30 June 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 and tourism industry. The Company is listed on the Nasdaq Main Market Iceland.

The Group's audited Consolidated Financial Statements as at and for the year ended 31 December 2021 are available at its website address, www.icelandairgroup.com and at the Nasdaq Main Market Iceland website address, <http://www.nasdaqomxnordic.com>.

2. Basis of accounting

a. Statement of compliance

The Group's Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2022 have been prepared in accordance with IAS 34, Interim Financial Reporting. 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 2021.

These Condensed Consolidated Interim Financial Statements were approved for issue by the Board of Directors on 21 July 2022.

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.

c. Functional and presentation currency

The Company's functional currency is U.S. dollars (USD). These Condensed Consolidated Interim 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.

3. Use of estimates and judgements

In preparing these Condensed Consolidated Interim 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.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimations of uncertainty were the same as those that applied to the audited Consolidated Financial Statements as at and for the year ended 31 December 2021.

4. Changes in accounting policies

The accounting policies and methods of computation applied in these Condensed 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 2021. A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these Condensed Consolidated Interim Financial Statements and they are not considered to have significant impact on the Condensed Consolidated Interim Financial Statements.

Notes, contd.:

5. Operating segments

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

Geographic segments for the six months ended 30 June 2022

	North America	Europe	Iceland	Other	Total
Transport revenue	182.671	120.564	113.570	6.469	423.274
Aircraft and aircrew lease	4.746	2.373	3.999	16.347	27.465
Other operating revenue	9.058	6.587	20.924	302	36.871
Total revenue	196.475	129.524	138.493	23.118	487.610
Total revenue %	40%	27%	28%	5%	100%

Geographic segments for the six months ended 30 June 2021

	North America	Europe	Iceland	Other	Total
Transport revenue	20.535	22.942	46.373	714	90.564
Aircraft and aircrew lease	1.659	0	2.404	14.749	18.812
Other operating revenue	621	1.951	22.813	91	25.476
Total revenue	22.815	24.893	71.590	15.554	134.852
Total revenue %	17%	18%	53%	12%	100%

Notes, contd.:

6. Operating income

	2022 Q2	2021 Q2	2022 YTD	2021 YTD
Transport revenue is specified as follows:				
Passengers	256.892	29.140	349.599	40.335
Passenger ancillary revenue	19.195	4.543	29.171	7.109
Cargo	21.985	22.979	44.504	46.062
Total transport revenue	298.072	56.662	423.274	93.506
Other operating revenue is specified as follows:				
Sale at airport	1.539	799	3.226	1.058
Revenue from tourism	7.436	3.305	17.609	4.292
Aircraft and cargo handling services	3.967	2.906	7.109	5.361
Maintenance revenue	475	1.387	811	2.193
Gain on sale of operating assets	278	3.800	1.537	6.296
Other operating revenue	3.386	860	6.579	3.332
Total other operating revenue	17.081	13.057	36.871	22.532

7. Operating expenses

	2022 Q2	2021 Q2	2022 YTD	2021 YTD
Salaries and salary related expenses are specified as follows:				
Salaries	64.651	39.864	113.920	68.726
Contributions to pension funds	10.305	6.259	18.615	11.323
Other salary-related expenses	8.913	6.380	17.496	7.744
Total salaries and salary related expenses	83.869	52.503	150.031	87.793
Aviation expenses are specified as follows:				
Aircraft fuel	106.019	19.451	151.330	27.299
Aircraft lease	0	322	0	513
Aircraft handling, landing and navigation	31.034	9.562	49.375	14.030
Aircraft maintenance expenses	19.817	9.692	35.134	18.580
Total aviation expenses	156.870	39.027	235.839	60.422
Other operating expenses are specified as follows:				
Operating cost of real estate and fixtures	2.334	1.005	4.354	2.155
Communication	5.823	4.511	11.636	8.581
Advertising	5.337	3.765	9.485	5.657
Booking fees and commission expenses	15.647	863	20.864	1.357
Cost of goods sold	1.043	322	2.409	514
Customer services	11.182	1.464	17.555	2.530
Travel and other employee expenses	13.303	4.658	21.920	6.760
Tourism expenses	3.828	1.709	10.358	1.731
Allowance for bad debt	(4.354)	(774)	(6.148)	270
Other operating expenses	6.456	5.411	13.429	12.074
Total other operating expenses	60.599	22.934	105.862	41.629

8. Depreciation and amortization

	2022 Q2	2021 Q2	2022 YTD	2021 YTD
The depreciation and amortization charge in profit or loss is specified as follows:				
Depreciation of operating assets	17.232	20.550	35.457	43.337
Depreciation of right-of-use assets	9.034	4.167	17.030	8.731
Amortization of intangible assets	135	575	523	1.381
Depreciation and amortization	26.401	25.292	53.010	53.449

Notes, contd.:

9. Finance income and finance costs

	2022 Q2	2021 Q2	2022 YTD	2021 YTD
Finance income and finance costs are specified as follows:				
Interest income on cash and cash equivalents and marketable securities	959	77	1.456	248
Interest income on lease receivables	132	11	132	107
Other interest income	413	3.173	1.578	3.325
Net currency exchange gain	0	2.029	0	3.724
Finance income total	1.504	5.290	3.166	7.404
Interest expenses on loans and borrowings	2.204	1.894	4.073	4.271
Interest on lease liabilities	2.997	1.095	5.636	2.527
Other interest expenses	1.242	1.194	1.766	1.585
Net currency exchange loss	3.452	0	3.909	0
Finance costs total	9.895	4.183	15.384	8.383
Changes in fair value of warrants, see note 12	9.950	(5.626)	9.605	3.973
Net finance income (loss)	1.559	(4.519)	(2.613)	2.994

10. Loans and borrowings

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

	30.6.2022	31.12.2021
Non-current loans and borrowings:		
Secured bank loans	256.187	238.612
Unsecured loans	28.097	19.173
Total loans and borrowings	284.284	257.785
Current maturities	(56.185)	(35.646)
Total non-current loans and borrowings	228.099	222.139
Current loans and borrowings:		
Current maturities	56.185	35.646
Total current loans and borrowings	56.185	35.646
Total loans and borrowings	284.284	257.785

Terms and debt repayment schedule:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance	
				30.6.2022	31.12.2021
Secured bank loans	USD	4,2%	2023-2034	206.981	180.115
Secured bank loans	EUR	1,4%	2028	49.206	58.497
Unsecured loans	ISK	5,0%	2023-2026	28.097	19.173
Total interest-bearing liabilities				284.284	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 are due in six instalments from September 2022 to February 2023. At year-end 2021 this amount totaling USD 8.9 million was included in Other payables.

Icelandair Group has two committed credit lines in place with local banks in the total amount of USD 52 million. The lines were undrawn as at 30 June 2022.

Notes, contd.:

10. Loans and borrowings, contd.:

Repayments of loans and borrowings are specified as follows:	30.6.2022	31.12.2021
Repayments in 2022 (6 months)(2021: 12 months)	29.385	35.646
Repayments in 2023	49.072	46.847
Repayments in 2024	58.699	58.541
Repayments in 2025	37.193	34.605
Repayments in 2026	28.091	25.328
Subsequent repayments	81.844	56.818
Total loans and borrowings	<u>284.284</u>	<u>257.785</u>

As part of its financial restructuring the Group signed deferral agreements with all major lenders in Q3 2020. The deferral agreements included temporary waivers from certain pre-COVID financial covenants, originally set to resume in the period of Q1-Q3 2022. On 7 February 2022 the Company terminated a loan agreement with two local banks in the amount of USD 120 million which was 90% guaranteed by the Icelandic government. In relation to the termination the Company renegotiated the timeline according to which the pre-Covid financial covenants would resume to take effect. The pre-COVID financial covenants are now set to resume gradually from Q3 2022 - Q4 2023.

The Group was not in breach of any financial covenants at 30 June 2022.

11. Lease liabilities

This note provides information of the Group's lease liabilities, which are measured at amortized cost, and changes during the year.

	Currency	Interest rates	Year of maturity	Total remaining balance	
				30.6.2022	31.12.2021
Lease liabilities	USD	4,1%	2021-2031	293.211	233.988
Lease liabilities indexed	ISK	3,9%	2021-2038	9.211	10.160
Lease liabilities	other	2,5%	2021-2028	1.253	1.511
Current maturity				(40.335)	(33.617)
Total non-current lease liabilities				<u>263.340</u>	<u>212.042</u>

Repayments of lease liabilities are specified as follows:	30.6.2022	31.12.2021
Repayments in 2022 (6 months)(2021: 12 months)	19.618	33.617
Repayments in 2023	40.400	31.219
Repayments in 2024	35.804	28.614
Repayments in 2025	35.858	28.003
Repayments in 2026	35.195	26.908
Subsequent repayments	136.800	97.298
Total lease liabilities	<u>303.675</u>	<u>245.659</u>

The Group has entered into lease agreements for three 737 MAX8 aircraft that are scheduled to be delivered in Q3 2022 (one aircraft), Q3 2023 (one aircraft) and Q4 2023 (one aircraft). Lease agreements have also been executed for two 767-300 freighters that are scheduled to be delivered in the second half of 2022.

The lease liability for these five aircraft equals approximately USD 131 million. See further note 15.

Notes, contd.:

12. Warrant liabilities

Warrant liabilities are specified as follows:

Assumptions	ICEAIRW 120822	Bain Capital 120822
Issue date	18.9.2020	23.7.2021
Exercise period end date	12.8.2022	12.8.2022
Share price (ISK) at issue date	1,00	1,43
Share price (ISK) at reporting date	1,45	1,45
Exercise price (ISK)	1,30	1,64
Interest rate (annual)	15,0%	15,0%
First interest date	23.9.2020	24.7.2021
Volatility (annual)	37,8%	37,8%
Risk free rate	5,3%	5,3%
Time to maturity (Years)	0,12	0,12
Fair value per warrant (ISK) at reporting date	0,16	0,02

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

Warrant liabilities	ICEAIRW 130821	ICEAIRW 180222	ICEAIRW 120822	Bain Capital 120822	Total
Total warrant liabilities 31.12.2020	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 exchanges difference	9	(139)	(154)	(108)	(392)
Exercised warrants	(4.095)	0	0	0	(4.095)
Fair value at 31.12.2021	0	7.865	7.403	3.127	18.395
Gain on change					
in fair value of warrant liability	0	(1.795)	(4.931)	(2.879)	(9.605)
Foreign exchanges difference	0	531	(128)	(54)	349
Exercised warrants	0	(6.601)	0	0	(6.601)
Fair value as of period ending	0	0	2.344	194	2.538

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. Warrant classes ICEAIRW120822 and the Bain Capital warrant will become exercisable in August 2022.

If warrant holders in both remaining classes exercise their warrants in full a total of 3,331,440,284 new shares in the Company will be issued and the proceeds will total approx. USD 36.2 million.

13. Deferred income

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

Deferred income is specified as follows:	30.6.2022	31.12.2021
Sold unused tickets and vouchers	431.354	223.975
Frequent flyer points	17.726	19.798
Other prepayments	15.288	15.307
Total deferred income	464.368	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 vouchers amounted to USD 56.5 million (2021: USD 83.7 million). The vouchers are generally valid for 3 years from the date of issuance.

Notes, contd.:

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:

	30.6.2022		31.12.2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives used for hedging	8.265	8.265	1.717	1.717
Unsecured bond issue	(28.097)	(28.281)	(19.173)	(19.308)
Secured loans	(256.187)	(270.986)	(238.612)	(248.043)
Warrants	(2.538)	(2.538)	(18.395)	(18.395)
Lease liabilities	(303.675)	(303.675)	(245.659)	(245.659)
Total	(582.232)	(597.215)	(520.122)	(529.688)

15. Capital commitments

The Group has entered into binding agreements for three 737 MAX8 aircraft and two 767-300 freighters as well as signed a Letter of Intent (LOI) for the purchase of four additional 737 MAX8 aircraft.

Both 767-300 freighters have been financed through sale and leaseback agreements and lease agreements have been executed regarding the three 737 MAX8 aircraft.

Financing for the four 737 MAX8 aircraft currently under LOI has not been finalized.

See the table below for expected delivery date:

	H2 2022	H2 2023	Total
Boeing 737 MAX8	5	2	7
Boeing 767-300 freighter	2	0	2
Total	7	2	9

The Group has taken delivery of four new 737 MAX8 aircraft during the first half of the year. Three of them are classified as Right-of-use assets (of which two are financed through sale and leaseback agreements) and one as Operating assets.

16. Group entities

The Company held the following significant subsidiaries at the end of June 2022:

	Share
FERIA ehf. (VITA)	100%
IceCap Insurance PCC Ltd.	100%
Iceignir ehf.	100%
Icelandair ehf.	100%
CAE Icelandair Flight Training ehf.	67%
Flugfélag Íslands ehf.	100%
Icelandair Cargo ehf.	100%
Loftleiðir - Icelandic ehf.	100%

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

Notes, contd.:

17. 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.

	2022	2021	2022	2021
	Q2	Q2	YTD	YTD
Investment and financing without cash flow effect:				
Acquisition of right-of-use assets	(25.117)	(132.373)	(73.998)	(132.399)
New or renewed leases	23.868	134.675	77.360	134.701
Gain on sale due to sales and leaseback	1.249	(2.302)	90	(2.302)
Non-current receivables	0	0	(3.452)	0
Loans and borrowings	0	16.492	8.927	16.492
Trade and other payables	0	(16.492)	(8.927)	(16.492)
Warrants	0	0	(6.439)	0
Retained earnings	0	0	6.439	0

Alternative performance measures (APMs)

	2022	2021	2022	2021
	Q2	Q2	YTD	YTD
Traffic				
ASK ('000)	3.603	719	5.307	914
RASK (USD cent)	8,0	5,6	7,5	5,9
CASK (USD cent)	8,3	15,2	9,0	18,9
RPK ('000)	2.830	339	3.974	407
PAX	989.821	154.885	1.411.799	221.116
OTP	75,5%	92,0%	74,3%	91,0%
Passenger flights	4.002	1.240	6.131	1.998
LF	78,5%	47,3%	74,9%	44,6%
BH	3.288	3.495	6.721	6.719
FTK ('000)	35.442	34.158	69.181	67.852
Passenger mix				
To	385.836	65.008	588.887	77.931
From	161.157	21.269	247.247	32.081
Via	369.362	16.550	451.607	17.347
Within	73.465	52.058	124.058	93.757
Capital structure			30.6.2022	31.12.2021
Total cash and marketable securities (USD '000)			411.021	262.964
Liquidity (USD '000)			463.021	434.964
Net interest-bearing debt (USD '000)			(126.736)	(5.179)
Net lease liabilities (USD '000)			(296.161)	(238.137)
Current ratio			0,80	0,83
Equity ratio			0,13	0,19
Equity ratio without warrants			0,14	0,21
Intrinsic value of share capital			0,71	0,82
Other				
	2022	2021	2022	2021
	Q2	Q2	YTD	YTD
Effective fuel price (USD pr. Metric tonn)	1.195	696	1.082	665
CAPEX, gross	30.486	152.163	196.290	160.562
CAPEX, net	22.700	(17.400)	86.322	(20.798)
FTE	3.188	1.783	2.837	1.648

Definitions

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 operational cost per available seat kilometer is calculated by dividing total operational cost on a given flight by available seat kilometers (ASK) on that flight
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 dividing 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
BH	Block hours - 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 structure

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
Equity ratio without warrants	As warrants are reversible over retained earnings (if used or not) we adjust the equity ratio for warrants. This is calculated by dividing total equity and warrants with total equity and liabilities less warrants
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

