Icelandair Group hf.

Consolidated Financial Statements for the year 2021

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

Contents

Appendices:

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 and tourism sectors. The Company concentrates its focus on its core business, aviation. The business model is built around Icelandair's route network and the unique geographical location of Iceland which serves as a connecting hub between Europe and North America. Icelandair Group is the parent company of several subsidiaries. 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 and within Iceland – the Company's hub and home.

The Consolidated Financial Statements of Icelandair Group hf. for the year 2021 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 2021

According to the Consolidated Income Statement, loss for the year 2021 amounted to USD 104.8 million. Equity at year-end amounted to USD 222.4 million, including share capital in the amount of USD 272.2 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.

After having focused on preserving its infrastructure, knowledge and maintaining financial strength throughout the pandemic, Icelandair Group was in a strong position for an efficient ramp-up as soon as passenger demand started to increase again in 2021. While ramping up its services, using its flexibility to adapt to rapid changes in its markets, the Group took strategic actions to streamline and simplify its operations and build up its team again during the year. Clear goals and a focused strategy resulted in a year of recovery for Icelandair and a strong financial position at the end of the year.

The number of departures within Icelandair’s international route network went from only 10 per week to four destinations early in the year to around 200 per week to almost 40 destinations during the summer peak. The total number of passengers on international and domestic flights was around 1.5 million and increased by 64% between years. The total passenger load factor was 65.3% in 2021 despite the surge of the Delta variant during the peak season in August and September and the negative effect of the Omicron variant on travelling in December.

Icelandair divides its route network into four markets – to, from, via and within Iceland. The “to” market with Iceland as a destination was Icelandair’s largest market in 2021 and accounted for 47% of total passengers. As a leading airline in Iceland, the recovery of Icelandair’s flight operations is vital for the Icelandic tourism industry, the economy and Icelandic society at large. The “from” market with travel originating in Iceland accounted for 14% of Icelandair’s total passengers. The “via” market between Europe and N-America, which was almost nonexistent from March 2020 until November 2021 due to the travel restrictions between the two continents, accounted for 23% of total passengers in 2021. The opening of the US borders to vaccinated travelers from Europe in the second week of November marked an important milestone for the Company. The domestic operation “within” Iceland accounted for 15% of total passengers and reached pre COVID levels in the fourth quarter of the year. The integration of Icelandair and its domestic airline, Air Iceland Connect, was completed in the first quarter of the year with the objective of simplifying and streamlining the Group’s operations. The first domestic flight under the Icelandair brand took place on 16 March 2021.

The Group’s cargo operations returned strong results in 2021 with volumes and revenues exceeding pre-COVID levels. Demand for both export and import was high, and transit freight continued to increase. A shift back to utilizing the cargo hold in the passenger aircraft started alongside the ramp-up of the passenger network Due to the strong outlook in international freight markets, lease agreements were entered into in March for two B767-300ER aircraft that will be converted to freighters with the aim to increase capacity and strengthen Iceland as a cargo hub.

On-time-performance in the international route network was high in 2021, reaching 84%, despite the steep ramp-up and level of complexity due to travel restrictions at borders. This success was a result of the resourcefulness and hard work of Icelandair’s employees supported by a strong emphasis on customer communications. Extensive information on travel restrictions all around the world is available on Icelandair’s website in addition to information on what to expect before, during and after the flight.

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

Operations in the year 2021, contd.:

In March, the Boeing 737 MAX was reintroduced to service following all necessary updates and training. The operational performance of the aircraft has exceeded expectations both in terms of flight range and fuel efficiency, which also supports Icelandair's commitment of reducing the carbon emissions from its operations. Icelandair took delivery of three brand new 737 MAX aircraft during the year and had a total of nine MAX aircraft in its operation at the end of the year.

In the beginning of October, Icelandair entered into favorable financing agreements for the final three Boeing 737 MAX aircraft of the amended MAX purchase order from Boeing. The aircraft is to be delivered in Q1 2022. The financing is in the form of a sale and leaseback of two MAX8 aircraft and an asset-backed loan for one MAX9 aircraft. Furthermore, in January 2022, an agreement was reached with Dubai Aerospace Enterprise regarding long-term operating leases of two new Boeing 737 MAX8 aircraft which are scheduled for delivery from Boeing in spring 2022, bringing the total number of MAX aircraft to 14.

The Group's leasing operation was challenging in 2021 with revenue amounting to 43% of 2019 revenue as its customers' operations continued to be impacted by COVID during the year. A significant turnaround was in the operation of Icelandair's travel agencies. Revenue of VITA, Icelandair's outbound travel agency doubled between years due to increased demand from the domestic market. The sale of Iceland Travel was completed 1 December 2021.

Meaningful steps were taken during the year to improve liquidity and strengthen the focus on the Group's core business - aviation and related services. The sale of the 25% remaining share in Icelandair Hotels was finalized in early August and the sale of Iceland Travel 1 December. On 24 June 2021 the Group announced an agreement with Bain Capital on the purchase of new shares in Icelandair Group. Total cash proceeds to the Group amounted to approximately USD 64 million. The new shares are subject to lock-up for a period of 180 days therefrom. In addition to the new shares, Bain received a warrant for subscription rights amounting to 25% of the number of new shares purchased. The warrant will be exercisable following the publishing of the Group's Q2 2022 results. The warrant allows Bain to purchase the shares at a price equaling the price per share of the new shares plus 15% annual interest. As part of the share offering completed on 17 September 2020 Icelandair Group issued warrants to investors that purchased shares. The first of three classes of warrants were exercisable in August 2021. Majority of warrant holders (97.1%) opted to exercise their warrants. Total proceeds to the Company amounted to USD 16.4 million.

Icelandair's key goal coming out of the pandemic is to return to a level of sustainable operating results. As part of preparing the Group for future success, Icelandair's organizational structure was changed in November to better reflect its ambitious strategy of sustainable growth, digital transformation and central focus on customer experience. The commercial responsibilities were split into two divisions – Customer and Revenue. A focused Digital & Data division will drive Icelandair's digital and data journey. Increased emphasis will be placed on sustainability, which is central to Icelandair's long-term strategy and is positioned within the CEO office along with Strategy. The cargo and leasing operations continue to be vital in complementing the core network services, increasing revenue and reducing seasonal fluctuations within the Group's operations. Alongside the ramp-up of its operations, Icelandair built up its team again, hiring around one thousand people during the year, and will continue to strengthen its workforce into 2022.

The liquidity position of Icelandair was strong at year-end 2021 with cash, cash equivalents and marketable securities amounting to USD 263 million and increasing by USD 104 million from the beginning of the year. The Company had in addition undrawn committed credit lines in the amount of USD 52 million and access to a USD 120 million back-stop credit facility from two domestic banks which is 90% guaranteed by the Icelandic Government, bringing total liquidity up to USD 435 million. Icelandair Group.

Icelandair Group's full-time equivalents (FTE) in 2021 were on average 2,087.

The Board of Directors proposes no dividend payment to shareholders in 2022 for the year 2021.

Share capital and Articles of Association

The nominal value of the Company's issued share capital amounted to ISK 35.96 billion at year-end. The share capital consist of shares of ISK 1 in nominal value, that are in a single class bearing equal rights. The shares are listed on the Icelandic Stock Exchange (Nasdaq Iceland) under the ticker symbol ICEAIR. According to the Icelandic Company's Act, companies can acquire and hold up to 10% of the nominal value of issued shares. At year-end the Company did not hold any treasury shares. The Company has entered into various agreements which 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 ceases to be listed on the Icelandic stock exchange.

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

Share capital and Articles of Association, contd.:

On 12 March 2021 the Annual General Meeting authorized the Board of Directors to purchase in the next 18 months up to 10% of its own shares in accordance with Article 55 of the Icelandic Companies Act No 2/1995 in order to establish a market making agreement for issued shares in the Company or to set up a formal buyback program. It is not allowed to purchase such shares at a higher rate than the last spot market rate or the highest bid in the trading system of a regulated market where the shares are traded. Such purchases are however authorized if they are executed by a market maker in accordance with Article 116 of the Act on Securities Trading or in accordance with Item 1, Paragraph 3, Article 115, and Paragraph 2, Article 119 of the Act on Securities Transactions and regulations implemented on the basis of Articles 118 and 131 of the same Act.

The Company's Board of Directors comprises five members, two women and three men. The gender ratio is thus in accordance with Icelandic laws requiring companies with over 50 employees to ensure that the Board has representation from both genders and that each gender comprises at least 40% of the Board Members when Board Members surpass three. The Board Members are elected at the Annual General Meeting each for a term of one year. Those persons willing to stand for election must give formal notice thereof to the Board of Directors and Icelandair Group's Nomination Committee at least seven days before the Annual General Meeting.

The Company's Articles of Association may only be amended at a legitimate shareholders' meeting, provided that amendments and their main aspects are clearly stated in the invitation to the meeting. A resolution will only be passed if it is approved by at least 2/3 of votes cast as well as by shareholders controlling at least 2/3 of the share capital represented at the respective shareholders' meeting.

The number of shareholders at year-end 2021 was 15,287 an increase of 1,779 during the year. At year-end 2021 the 10 largest shareholders were:

Name	Shares in ISK thousand	Shares in %
Bain Capital	5,659,094	15.74
Brú - Lífeyrissjóður starfsmanna sveitarfélaga	1,461,210	4.06
Íslandsbanki hf.	1,188,833	3.31
Gildi - lífeyrissjóður	1,146,232	3.19
Íslandssjóðir	1,051,580	2.92
Lífeyrissjóður starfsmanna ríkisins A deild og B deild	1,016,032	2.83
Arion Banki hf.	1,006,159	2.80
Landsbréf	975,803	2.71
Almenni lífeyrissjóðurinn	731,168	2.03
Bóksal ehf.	645,168	1.79
	14,881,280	41.38
Other shareholders	21,077,152	58.62
	35,958,432	100.00

Further information on matters related to share capital is disclosed in note 28. Additional information on shareholders is provided on the Company's website www.icelandairgroup.com.

Corporate Governance

The Group's management is of the opinion that practicing good Corporate Governance is vital for the existence of the Group and in the best interests of shareholders, Group companies, employees and other stakeholders and will in the long run produce satisfactory returns on shareholders' investment. Corporate Governance exercised within Icelandair Group hf. ensures sound and effective control of the Company's affairs and highly ethical business practices.

The 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.

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

Corporate Governance, contd.:

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 36. Information regarding operational risk management is disclosed in Operational Risk Appendix.

Non-Financial Reporting

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

The company has 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.

Statement by the Board of Directors and the CEO

The consolidated financial statements for the year ended 31 December 2021 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 2021 identified as "549300UMI5MBLZSXGL15-2021-12-31-en.zip" are prepared in all material respects, 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 2021, its assets, liabilities and consolidated financial position as at 31 December 2021 and its consolidated cash flows for the year 2021.

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 2021 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, 3 February 2022.

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, 2021, 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, 2021, 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 8 "Operating income" and 35 "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 which gives rise to an inherent 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 and cargo 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 and cargo revenue accounts to ensure that they have commercial value. • Testing inputs into the Prepaid income obligation by re-performing calculations and tracing to underlying data. • Checking that the methodology applied to prepaid income and expired tickets was consistent to the prior year and assessed the appropriateness of changes to the methodology. • Tested reconciliation between the revenue accounting system and the finance 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. 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 and cargo revenue accounts to accounts receivables and cash.
Key Audit Matters	**How the matter was addressed in the audit**
Expected recoverable amount of goodwill, intangible assets and operating assets *Reference is made to note 18 "Intangible assets and goodwill" , note 13 "Operating assets", and 19. "Impairment".* The carrying value of intangible assets has been allocated to the applicable cash generating units within the Group. Management is required to perform an impairment test annually on goodwill and other intangible assets with indefinite useful lives, other assets are required to be tested if there is an indication of impairment. The purpose of an impairment test is to determine if the assets can be recovered through future cash flows. The recoverable amounts of individual cash generating units are determined by discounting the expected future cash flows generated from the continuing use of the units. The expected recoverable amount of goodwill, intangible assets and operating assets is one of the key audit matters due to the inherent uncertainty involved in forecasting and discounting future cash flows which are the basis of the assessment of the recoverability of the assets.	With the assistance of valuation specialists, we assessed the valuation models and assumptions used by management in their calculations of expected recoverable amount of each cash generating unit. We assessed the appropriateness of management's key assumptions. We evaluated alignment of long-term growth rates and considered whether discount rates were within acceptable ranges for each cash generating unit. We considered the potential impact of uncertainties related to COVID-19 and the effect on key assumptions within management´s business plans. We verified the impairment calculations. Furthermore, we challenged management´s sensitivity analysis to evaluate wether a reasonable change in the key assumptions for any of the Group´s cash generating units would cause the carrying amounts to exceed the recoverable amounts. We evaluated the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities.

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 the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and were applicable, related safeguards.

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 2021 with the file name "549300UMI5MBLZSXGL15-2021-12-31-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

In our opinion, the consolidated financial statements of Icelandair Group hf. for the year 2021 with the file name "549300UMI5MBLZSXGL15-2021-12-31-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, 3 February 2022.

KPMG ehf.

Hjördís Ýr Ólafsdóttir

Matthías Þ. Óskarsson

Consolidated Income Statement and other Comprehensive Income for the year 2021

	Notes	2021	2020
Operating income			
Transport revenue	8	453,868	265,523
Aircraft and aircrew lease		42,676	64,739
Other operating revenue	8	88,369	103,329
		584,913	433,591
Operating expenses			
Salaries and salary related expenses		215,485	207,892
Aviation expenses		235,452	171,451
Other operating expenses		156,779	140,742
	9	607,716	520,085
Operating loss before depreciation and amortisation (EBITDA)		(22,803)	(86,494)
Depreciation and amortisation	11	(113,136)	(160,343)
Impairment	18	0	(116,158)
Operating loss (EBIT)		(135,939)	(362,995)
Finance income		13,242	2,735
Finance costs		(20,779)	(29,579)
Fair value changes		8,182	(43,026)
Net finance costs	12	645	(69,870)
Gain on sale of associate/subsidiary	7, 20	9,083	22,454
Share of loss of associates	20	(3,848)	(27,423)
Loss before tax (EBT)		(130,059)	(437,834)
Income tax	23	25,263	61,658
Loss for the year		(104,796)	(376,176)
Other comprehensive income (loss)			
Items that are or may be reclassified to profit or loss			
Currency translation differences		(2,203)	(10,615)
Net loss on hedge of investment, net of tax	36	(1,238)	(5,274)
Cash flow hedges - effective portion of changes in fair value, net of tax	36	12,412	(38,442)
Cash flow hedges - reclassified to profit or loss		4,400	21,693
Other comprehensive income (loss) for the year		13,371	(32,638)
Total comprehensive loss for the year		(91,425)	(408,814)
Owners of the Company		(104,298)	(366,567)
Non-controlling interests		(498)	(9,609)
Loss for the year		(104,796)	(376,176)
Total Comprehensive loss attributable to:			
Owners of the Company		(90,928)	(399,205)
Non-controlling interests		(497)	(9,609)
Total comprehensive loss for the year		(91,425)	(408,814)
Earnings per share:			
Basic earnings per share in US cent per share	29	(0.33)	(3.04)
Diluted earnings per share in US cent per share	29	(0.33)	(3.04)

The notes on pages 15 to 55 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2021 11 Amounts are in USD thousand

Consolidated Statement of Financial Position as at 31 December 2021

	Notes	2021	2020
Assets:			
Operating assets	13-16	391,293	498,438
Right-of-use assets	17	224,794	119,790
Intangible assets and goodwill	18-19	55,614	60,261
Investments in associates	20	11,592	9,603
Deferred cost	21	0	3,537
Receivables and deposits	22	18,987	21,686
Deferred tax asset	23	60,647	38,836
Non-current assets		762,927	752,151
Inventories	24	24,398	23,383
Derivatives used for hedging	36	2,853	0
Trade and other receivables	26	118,417	99,334
Marketable securities	25	58,197	41,713
Cash and cash equivalents	27	204,767	117,657
Current assets		408,632	282,087
Total assets		1,171,559	1,034,238
Equity:			
Share capital		272,204	212,969
Share premium		34,178	13,208
Reserves		24,116	8,373
Accumulated deficit		(105,876)	0
Equity attributable to equity holders of the Company	28	224,622	234,550
Non-controlling interests		(2,238)	(1,741)
Total equity		222,384	232,809
Liabilities:			
Loans and borrowings	30	222,139	239,575
Lease liabilities	31	212,042	119,707
Payables	33	23,384	17,087
Derivatives used for hedging	36	0	5,958
Warrants	32	0	18,635
Non-current liabilities		457,565	400,962
Loans and borrowings	30	35,646	24,013
Lease liabilities	31	33,617	26,890
Warrants	32	18,395	9,129
Derivatives used for hedging	36	1,136	11,333
Trade and other payables	34	143,736	141,700
Deferred income	35	259,080	187,402
Current liabilities		491,610	400,467
Total liabilities		949,175	801,429
Total equity and liabilities		1,171,559	1,034,238

The notes on pages 15 to 55 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2021 12 Amounts are in USD thousand

Consolidated Statement of Changes in Equity for the year 2021

	Attributable to equity holders of the Company						
2020	**Share capital**	**Share premium**	**Reserves**	**Accumulated deficit**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2020	44,199	174,299	45,449	219,132	483,079	(601)	482,478
Shares issued	168,770			(1,897)	166,873		166,873
Warrants issued				(16,197)	(16,197)		(16,197)
Loss for the year				(366,567)	(366,567)	(9,609)	(376,176)
Other comprehensive loss			(32,638)		(32,638)		(32,638)
Divestment of Non-Controlling Interest						8,469	8,469
Effects of profit or loss of subsid. and associates			(4,438)	4,438	0		0
Transfer of share premium		(161,091)		161,091	0		0
Balance at 31 December 2020	212,969	13,208	8,373	0	234,550	(1,741)	232,809
2021							
Balance at 1 January 2021	212,969	13,208	8,373	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 excised				4,095	4,095		4,095
Loss for the year				(104,299)	(104,299)	(497)	(104,796)
Other comprehensive Income			13,371		13,371		13,371
Effects of profit or loss of subsid. and associates			2,372	(2,372)	0		0
Balance at 31 December 2021	272,204	34,178	24,116	(105,876)	224,622	(2,238)	222,384

Information on changes in other reserves is provided in note 28.

The notes on pages 15 to 55 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2021 13 Amounts are in USD thousand

Consolidated Statement of Cash Flows for the for the year 2021

	Notes	2021	2020
Cash flows from operating activities:			
Loss for the year		(104,796)	(376,176)
Adjustments for:			
Depreciation and amortisation	11	113,136	160,343
Impairment	18	0	116,158
Expensed deferred cost		15,946	13,118
Net finance costs	12	7,537	26,844
Changes in fair value		(8,182)	43,026
Gain on sale of operating assets		(8,243)	(7,882)
Gain on sale of a subsidiary/associate	7, 20	(9,083)	(22,454)
Share in loss of associates	20	3,848	27,423
Income tax	23	(25,263)	(61,658)
		(15,100)	(81,258)
Changes in:			
Inventories	24	(1,290)	(726)
Trade and other receivables	26	(21,897)	32,732
Trade and other payables	34	29,127	(108,060)
Deferred income		77,298	(18,715)
Cash generated from (used in) operating activities		83,238	(94,769)
Interest received		688	2,077
Interest paid		(18,214)	(19,269)
Net cash from (used in) operating activities		50,612	(193,219)
Cash flows from (to) investing activities:			
Acquisition of operating assets	13	(170,101)	(41,790)
Proceeds from sale of operating assets		197,036	25,726
Acquisition of intangible assets	18	(293)	(730)
Deferred cost, change		(13,683)	(6,640)
Proceeds from sale of a subsidiary		6,418	45,312
Investment in associates		(2,290)	0
Non-current receivables, change		4,346	22,476
Cash attributable to assets held for sale	7	0	(4,920)
Marketable securities, change		(16,803)	(41,713)
Net cash from (used in) investing activities		4,630	(2,279)
Cash flows from financing activities:			
Shares issued	28	80,205	166,396
Proceeds from loans and borrowings	30	3,229	0
Repayment of loans and borrowings	30	(20,365)	(21,874)
Repayment of lease liabilities	31	(30,255)	(22,606)
Repayment of short term borrowings	30	0	(42,257)
Net cash from financing activities		32,814	79,659
Change in cash and cash equivalents		88,056	(115,839)
Effect of exchange rate fluctuations on cash held		(946)	(1,577)
Cash and cash equivalents at beginning of the year		117,657	235,073
Cash and cash equivalents at 31 December	27	204,767	117,657

The notes on pages 15 to 55 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2021 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 2021 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.

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 3 February 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. Details of the Group's accounting policies are included in note 45.

c. Going Concern

These Consolidated Financial Statements are prepared on a going concern basis. Despite uncertainty due to COVID-19, the Board of Directors believes that it is appropriate to prepare these Consolidated Financial Statements on a going concern basis.

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. Due to COVID-19, the aviation and travel industries are facing tremendous uncertainty around when demand for travel will return to normal levels, i.e. as they were prior to COVID-19. In preparation of the Consolidated Financial Statements, management adjusted its estimations and assumptions towards the current unprecedented circumstances.

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 2021 is included in the following notes:

Note 19 - Measurement of the recoverable amounts of cash-generating units
Note 35 - Deferred income
Note 37 - Financial instruments and values

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 an 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.:

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 32 - Warrant liabilities
Note 37 - Derivatives

5. Changes in accounting policies

A number of new standards are effective for annual periods beginning after 1 January 2021 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.

Notes, contd.:

6. Operating segments

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

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

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

Passenger and cargo operations

The largest entity of the Group, the international and domestic passenger airline Icelandair ehf., including its subsidiary Icelandair Cargo, has been identified for financial reporting purposes as a reportable operating segment. Iceland‘s unique geographical position provides Icelandair with significant strategic advantages. This is encapsulated in Icelandair‘s ability to serve four markets simultaneously (to, from, via and within Iceland). Icelandair Cargo offers freight services by utilizing the capacity within the aircraft of the Icelandair passenger network as well as with their own freighters.

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

Other group entities

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

Iceland Travel was classified as an asset held for sale from January to November 2021. The sale of the company was finalized by delivering shares against payment on 1 December 2021.

Notes, contd.:

6. Operating segments, contd.:

Reportable segments for the year 2021

	Passenger and cargo operations	Other group entities *	Total
External revenue	503,473	81,440	584,913
Inter-segment revenue	40,988	297	41,285
Segment revenue	544,461	81,737	626,198
Depreciation and amortisation	(103,465)	(9,671)	(113,136)
Segment EBIT	(135,106)	(833)	(135,939)
Finance income	30,773	796	31,569
Finance costs	(38,097)	(1,009)	(39,106)
Fair value change	8,182	0	8,182
Gain on sale of subsidiary	0	9,083	9,083
Share of profit (loss) of associates **	55	(3,903)	(3,848)
Reportable segment (loss) profit before tax	(134,193)	4,134	(130,059)
Reportable segment assets	1,396,742	63,378	1,460,120
Capital expenditure	174,787	9,290	184,077
Reportable segment liabilities	1,368,557	56,151	1,424,708

Reportable segments for the year 2020

	Passenger and cargo operations	Other group entities *	Total
External revenue	339,352	94,239	433,591
Inter-segment revenue	63,141	739	63,880
Segment revenue	402,493	94,978	497,471
Depreciation and amortisation	(148,632)	(11,711)	(160,343)
Impairment	(82,859)	(33,299)	(116,158)
Segment EBIT	(311,957)	(51,038)	(362,995)
Finance income	14,233	767	15,000
Finance costs	(32,734)	(9,110)	(41,844)
Fair value change	(43,026)	0	(43,026)
Gain on sale of subsidiary	0	22,454	22,454
Share of (loss) profit of associates **	(27,425)	2	(27,423)
Reportable segment loss before tax	(400,909)	(36,925)	(437,834)
Reportable segment assets	1,463,838	66,894	1,530,732
Capital expenditure	48,193	4,207	52,400
Reportable segment liabilities	1,318,483	53,659	1,372,142

* In year 2021 Iceland Travel is part of Other group entities for the period January to November
** Share of loss of an associate has been restated between segments

Consolidated Financial Statements of Icelandair Group hf. 2021 18 Amounts are in USD thousand

Notes, contd.:

6. Operating segments, contd.:

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

	2021	2020
Revenue		
Total revenue for reportable segments	626,198	497,471
Elimination of inter-segment revenue	(41,285)	(63,880)
Consolidated revenue	584,913	433,591
Profit or loss		
Consolidated continuing profit before tax	(130,059)	(437,834)
Assets		
Total assets for reportable segments	1,460,120	1,530,732
Investments in associates	11,592	9,442
Elimination of inter-segment assets	(303,736)	(505,936)
Consolidated total assets	1,167,976	1,034,238
Liabilities		
Total liabilities for reportable segments	1,424,708	1,372,142
Elimination of inter-segment liabilities	(475,533)	(570,713)
Consolidated total liabilities	949,175	801,429

Other material items

	Reportable segment totals	Adjust-ments	Consoli-dated totals
2021			
Segment EBIT	(135,939)		(135,939)
Finance income	31,569	(18,327)	13,242
Finance costs	(39,106)	18,327	(20,779)
Share of profit of associates	(3,848)		(3,848)
Capital expenditure	174,787	9,290	184,077
2020			
Segment EBIT	(362,995)		(362,995)
Finance income	15,000	(12,265)	2,735
Finance costs	(41,844)	12,265	(29,579)
Share of profit of associates	(27,423)		(27,423)
Capital expenditure	48,543	4,207	52,750

Geographic information

The geographic information analyses the Group's revenue as the majority of the Group's clients are outside of Iceland. The vast majority of the Group's non-current assets are located in Iceland. In presenting the following information the Group's revenues have been based on geographic location of customers.
Due to the COVID-19 pandemic and the associated wide-ranging travel restriction and decrease in travel demand, the numbers for YTD 2021 are not directly comparable to the numbers for YTD 2020.

Revenues	2021	2020
North America	21%	19%
Iceland	54%	42%
West Continental Europe	13%	20%
Scandinavia	3%	5%
United Kingdom	2%	4%
Other	7%	10%
Total revenues	100%	100%

Consolidated Financial Statements of Icelandair Group hf. 2021 19 Amounts are in USD thousand

Notes, contd.:

7. Assets held for sale

Both in the beginning and end of year 2021, there were no assets held for sale. On 19 January 2021, the Company decided to sell Iceland Travel. From that date, Iceland Travel was classified as an asset held for sale until the sale was finalized by delivering shares against payment of USD 8.1 million on 1 December 2021. Total cash at that time amounted to USD 5.0 million. In the period January to November total revenue amounted to USD 23.9 million and total expenses to USD 23.4 million. The Group recognized a profit from the sale amounting to USD 4.4 million.

8. Operating income

Transport revenue is specified as follows:	2021	2020
Passengers	333,785	177,321
Passenger ancillary revenues	32,697	21,719
Cargo	87,386	66,483
Total transport revenue	453,868	265,523
Other operating revenue is specified as follows:		
Sale at airports and hotels	4,763	12,864
Revenue from tourism	41,966	18,069
Aircraft and cargo handling services	20,405	16,207
Maintenance revenue	2,887	1,758
Gain on sale of operating assets	8,243	7,882
Other operating revenue	10,105	46,549
Total other operating revenue	88,369	103,329

9. Operating expenses

Salaries and other personnel expenses are specified as follows:	2021	2020
Salaries	168,888	199,926
Contributions to pension funds	27,097	31,198
Other salary-related expenses	19,500	5,045
Reduction of salary cost	0	(28,277)
Total salaries and salary related expenses	215,485	207,892
Average number of full year equivalents *	2,087	2,621
Full time equivalents at period end **	2,393	1,531
Gender ratio for employees (male / female)	55 / 45	52 / 48

* In year 2020 the average number of full year equivalents (FTEs) includes employees that were working on notice period during the year. About a quarter of the FTEs were working on notice period and not delivering full time work.

** In year 2020 excluding employees that have been given notice.

Aviation expenses are specified as follows:		
Aircraft fuel	119,886	76,450
Aircraft lease	705	7,423
Aircraft handling, landing and navigation	65,079	40,399
Aircraft maintenance expenses	49,783	47,179
Total aviation expenses	235,452	171,451
Other operating expenses are specified as follows:		
Operating cost of real estates and fixtures	5,785	6,648
Communication	21,423	17,887
Advertising	13,284	9,443
Booking fees and commission expenses	19,785	19,885
Cost of goods sold	2,958	2,671
Customer services	13,908	17,530
Travel and other employee expenses	23,590	20,664
Tourism expenses	26,043	8,625
Allowance for bad debt	2,339	14,704
Other operating expenses	27,664	22,685
Total other operating expenses	156,779	140,742

Consolidated Financial Statements of Icelandair Group hf. 2021 20 Amounts are in USD thousand

Notes, contd.:

10. Auditor's fee

Auditor's fees are specified as follows:

	Group auditors 2021	Group auditors 2020	Other auditors 2021	Other auditors 2020
Audit	412	375	39	21
Other services	54	100	0	0
	466	475	39	21

11. Depreciation and amortisation

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

	2021	2020
Depreciation of operating assets, see note 13	88,305	136,821
Depreciation of right-of-use assets, see note 17	22,477	20,556
Amortisation of intangible assets, see note 18	2,354	2,966
Depreciation and amortisation recognized in profit or loss	113,136	160,343

12. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2021	2020
Interest income on cash and cash equivalents	321	854
Interest income on lease receivables	276	452
Other interest income	3,723	1,429
Net currency exchange gain	8,922	0
Finance income total	13,242	2,735
Interest expense on loans and borrowings	8,750	9,867
Interest expenses on lease liabilities	7,299	8,300
Interest on pre-delivery payments for aircraft (PDPs)	0	3,755
Other interest expenses	4,730	1,510
Net currency exchange loss	0	6,147
Finance costs total	20,779	29,579
Changes in fair value of warrants, see note 32	8,182	(10,452)
Changes in fair value of derivatives, see note 36	0	(32,574)
Fair value changes	8,182	(43,026)
Net finance income (costs)	645	(69,870)

13. Operating assets

Operating assets are specified as follows:

Cost	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Balance at 1 January 2020	791,107	103,511	91,195	985,813
Additions	37,767	1,813	2,209	41,790
Sales and disposals	(54,421)	(8,143)	(4,855)	(67,419)
Assets classified as held for sale	0	(405)	66	(339)
Effects of movements in exchange rates	(210)	(5,491)	(275)	(5,976)
Balance at 31 December 2020	774,243	91,285	88,340	953,869
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	880,483

Consolidated Financial Statements of Icelandair Group hf. 2021 21 Amounts are in USD thousand

Notes, contd.:

13. Operating assets, contd.:

Depreciation and impairment	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Balance at 1 January 2020	300,034	22,113	33,266	355,413
Depreciation	122,370	3,656	10,795	136,821
Sales and disposals	(27,115)	(1,396)	(5,678)	(34,189)
Assets classified as held for sale	0	(1,616)	133	(1,483)
Effects of movements in exchange rates	(24)	(1,005)	(103)	(1,132)
Balance at 31 December 2020	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
Carrying amounts				
At 1 January 2020	491,073	81,398	57,929	630,400
At 31 December 2020	378,978	69,533	49,927	498,438
At 31 December 2021	285,145	64,299	41,849	391,293
Depreciation ratios	4-20%	2-6%	5-33%	

Acquisition of operating assets in 2021 amounted to USD 170.1 million (2020: USD 41.8 million) therof overhaul of own engines and aircraft spare parts in the amount of USD 40.9 million (2020: USD 37.8 million). See further in note 38.

14. Mortgages and commitments

The Group's operating assets, aircraft and spare parts are mortgaged to secure debt. The remaining balance of the debt amounted to USD 238.6 million at year-end 2021 (2020: USD 263.6 million). The Group owns 32 aircraft including 20 Boeing 757, 4 Boeing 767 and 2 Boeing 737 MAX. At year-end, 4 aircraft were unencumbered.

15. Insurance value of aircraft and flight equipment

The insurance value and carrying amount of the Group's aircraft and related equipment at year-end is specified as follows:

	Insurance value		Carrying amounts	
	2021	2020	2021	2020
Boeing - 26 / 30 aircraft	572,000	676,000	231,666	312,504
Other - 6 / 6 aircraft	54,300	54,300	32,319	35,500
Flight equipment	79,719	82,708	21,160	30,975
Total aircraft and flight equipment	706,019	813,008	285,145	378,979

16. Insurance value of buildings and other operating assets

The principal buildings owned by the Group are the following:

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

Consolidated Financial Statements of Icelandair Group hf. 2021 22 Amounts are in USD thousand

Notes, contd.:

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

2020	Maintenance hangers	Staff apartments	Office buildings	Other buildings	Under construction	Total
Official assessment value	36,464	7,005	14,103	11,990	0	69,562
Insurance value	70,481	14,268	37,459	37,731	0	159,939
Carrying amounts	27,328	4,843	15,936	21,426	0	69,533
Square meters	31,814	6,921	13,262	17,916	0	69,913

Official valuation of the Group's leased land for buildings at 31 December 2021 amounted to USD 14.6 million (2020: USD 14.2 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 60.6 million at year-end 2021 (2020: USD 66.3 million). The carrying amount at the same time was USD 41.8 million (2020: USD 49.9 million).

17. Right of use assets

	Land & Real Estate	Aircraft	Other	Total
Balance at 1 January 2020	9,351	124,043	641	134,035
Adjustments	(747)	218	(176)	(706)
Adjustments for indexed leases	527	(41)	13	500
New or renewed leases	3,594	0	344	3,938
Depreciation	(4,496)	(15,616)	(444)	(20,556)
Reclassified to assets held for sale	2,097	0	4	2,101
Currency translation adjustment	459	0	18	477
Balance at 31 December 2020	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

18. Intangible assets and goodwill

Intangible assets and goodwill are specified as follows:

Cost	Goodwill	Trademarks and slots	Other intangibles	Total
Balance at 1 January 2020	150,535	34,565	7,446	192,546
Additions	0	0	730	730
Disposals	(94,878)	0	(336)	(95,214)
Assets classified as held for sale	1,988	0	4,253	6,241
Effects of movements in exchange rates	257	0	365	622
Balance at 31 December 2020	57,902	34,565	12,458	104,925
Additions	0	0	293	293
Disposals	0	0	(1,466)	(1,466)
Assets classified from 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	96,785

Consolidated Financial Statements of Icelandair Group hf. 2021 23 Amounts are in USD thousand

Notes, contd.:

18. Intangible assets and goodwill, contd.:

Amortisation and impairment losses

	Goodwill	Trademarks and slots	Other intangibles	Total
Balance at 1 January 2020	11,957	2,605	2,753	17,315
Amortisation	0	0	2,966	2,966
Impairment, see note 19	116,158	0	0	116,158
Disposals	(94,878)	0	(102)	(94,980)
Assets classified as held for sale	71	0	2,807	2,878
Effects of movements in exchange rates	0	0	327	327
Balance at 31 December 2020	33,308	2,605	8,751	44,664
Amortisation	0	0	2,354	2,354
Disposals	0	0	(660)	(660)
Assets classified from 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

Carrying amounts

	Goodwill	Trademarks and slots	Other intangibles	Total
At 1 January 2020	138,578	31,960	4,693	175,231
At 31 December 2020	24,594	31,960	3,707	60,261
At 31 December 2021	22,420	31,960	1,234	55,614

19. Impairment test

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

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

	2021	2020
Goodwill	22,420	24,594
Trademarks and airport slots	31,960	31,960
Total	54,380	56,554

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	
	2021	2020	2021	2020
Passenger and cargo operations	0	0	31,960	22,445
Other Group entities	22,420	24,594	0	9,515
Total	22,420	24,594	31,960	31,960

Despite recent indications that the Covid-19 virus may be nearing its endgame the pandemic continues to pose uncertainties to the Group‘s operations. While fewer people are getting critically ill and social and travel restrictions are starting to be eased there is still a possibility that new variants will emerge. This makes effective planning difficult for both the Group as well as its customers and passengers. The Group continues to monitor the situation in all markets and strives to maintain the necessary flexibility to react swiftly to any changes in the external environment.

The Group‘s long-term business plan was revised at the outset of the pandemic allowing the Group to tailor capacity to changes in demand to the extent practicable. The plan assumed that the recovery would not necessarily be linear and it will take several years for production and revenues to reach pre-COVID levels. The current expectation is that those levels will be reached in 2023

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

Consolidated Financial Statements of Icelandair Group hf. 2021 24 Amounts are in USD thousand

Notes, contd.:

19. Impairment test, contd.:

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

2021	Passenger and cargo operations	Other Group entities *
Long-term growth rate	2.1%	2.1%
Revenue growth:		
Weighted average 2021/2020	112.7%	73.4%
2021- 2026	24.5%	21.0%
Budgeted 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%
2020		
Long-term growth rate	1.5%	1.5%
Revenue growth:		
Weighted average 2020/2019	-70.1%	-57.0%
2020- 2025	27.1%	22.1%
Budgeted EBIT growth 2021-2025	190.2%	203.4%
WACC	9.2%	15.3%
Debt leverage	63.4%	56.0%
Pre tax interest rate for debt	4.5%	3.7%

* 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.

20. Investment in associates

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

		2021		2020	
	Ownership	Carrying amount	Share of profit/loss in associates	Carrying amount	Share of profit/loss in associates
EBK ehf.	25%	1,017	(171)	1,230	124
ITF 1 slhf.	29%	7,323	216	6,291	(2,093)
Lindarvatn ehf.	50%	3,095	26	1,893	(12,792)
Icelandair Hotels	0%	0	(3,903)	13	(12,657)
Other investments		157	(16)	176	(5)
Total investments in associates		11,592	(3,848)	9,603	(27,423)

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

Lindarvatn ehf. is the owner of a property at Thorvaldsensstræti in downtown Reykjavík and other properties located near Austurvöllur which are being rebuilt as a hotel.

ITF 1 slhf. is a fund managed by Landsbréf. The Fund's purpose is to invest in Icelandic companies focusing on entertainment and leisure activities for foreign tourists. The main focus is on full-year projects which contribute to the better utilization of the infrastructure in the Icelandic Tourism industry.

Consolidated Financial Statements of Icelandair Group hf. 2021 25 Amounts are in USD thousand

Notes, contd.:

20. Investment in associates, contd.:

The sale of the Company's 25% remaining share in Icelandair Hotels has been finalized with payment for and delivery of the shares executed in early August. Gain on the sale of USD 4.7 million was recognized in the income statement. Icelandair Hotels have twelve months to rebrand the hotel chain and cease use of the Icelandair brand. In its capacity as parent company the Company had issued guarantees in relation to rental obligations for Icelandair Hotels. The guarantees were provided in solidum. However, the Company has a back-to-back guarantee from the buyer Berjaya Land Berhad. The Company has reserved USD 2.0 million against potential future cost related to these guarantees. The amount will otherwise be recognized as revenue when the these guarantees have formally been released.

Until 9 July 2021 the Group held a 36% share in Cabo Verde Airlines (CVA) when the Cabo Verde government nationalized the airline. The book value of the Group's holding in CVA was fully expensed in 2020 and thus no loss is realized in relation to the government‘s actions. Reserves had further already been made against all receivables on CVA.

21. Deferred cost

Deferred cost consists of engine overhauls and heavy maintenance of leased aircraft which will be expensed over the lease period. Deferred cost is specified as follows:

	2021	2020
Deferred cost	0	4,656
Current portion, classified as prepayments among receivables	0	(1,119)
Total deferred cost	0	3,537

22. 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:	2021	2020
Loans, effective interest rate 6% / 6%	50	47
Lease receivable, interest rate 4% / 5%	7,523	12,703
Security deposits	14,414	12,027
Prepayments on aircraft purchases (see disclosure 38)	11,390	17,642
	33,377	42,419
Current maturities	(14,390)	(20,733)
Non-current receivables and deposits total	18,987	21,686
Contractual repayments mature as follows:		
Maturities in 2021	-	20,733
Maturities in 2022	14,390	5,778
Maturities in 2023	3,357	3,360
Maturities in 2024	3,557	3,347
Maturities in 2025	575	165
Maturities in 2026	519	70
Subsequent	10,979	8,966
Total non-current receivables and deposits, including current maturities	33,377	42,419

Non-current receivables and deposits denominated in currencies other than the functional currency comprise USD 2.3 million (2020: USD 2.7 million).

Consolidated Financial Statements of Icelandair Group hf. 2021 26 Amounts are in USD thousand

Notes, contd.:

23. Income taxes

(i) Amounts recognized in profit or loss

Deferred tax expense	2021	2020
Origination and reversal of temporary differences	(25,263)	(61,658)
Total tax expense recognized in profit or loss	(25,263)	(61,658)

(ii) Amounts recognized in other comprehensive income

	2021	2020
Effective portion of changes in fair value of cash flow hedge	3,911	(3,902)
Exchange rate difference	(309)	(1,318)
Total tax recognized in other comprehensive income	3,602	(5,220)

(iii) Reconciliation of effective tax rate

	2021		2020	
Loss before tax		(130,059)		(437,834)
Income tax according to current tax rate	20.0%	(26,012)	20.0%	(87,567)
Non-deductible expenses	(0.1%)	75	(0.0%)	90
Warrants	1.3%	(1,636)	(0.5%)	2,090
Impairment	0.0%	0	(5.3%)	23,232
Gain on sale of a subsidiary/associate	1.4%	(1,817)	1.0%	(4,491)
Share of loss of associates	(0.6%)	770	(1.3%)	5,485
Other items	(2.6%)	3,357	0.1%	(497)
Effective tax rate	19.4%	(25,263)	14.1%	(61,658)

(iv) Recognized deferred tax liabilities

Deferred tax liabilities are specified as follows:	2021	2020
Deferred tax liabilities 1 January	(38,836)	25,679
Deferred tax recognized in profit or loss	(25,263)	(61,658)
Income tax recognized in other comprehensive income	3,602	(5,220)
Exchange rate difference	(291)	2,022
Deferred tax liabilities transferred to assets held for sale	141	341
Deferred tax (assets) liabilities 31 December	(60,647)	(38,836)

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

	Assets		Liabilities		Net	
	2021	2020	2021	2020	2021	2020
Operating assets	0	0	(29,102)	(45,954)	(29,102)	(45,954)
Intangible assets	0	0	(87)	(259)	(87)	(259)
Derivatives	0	3,889	(22)	0	(22)	3,889
Trade receivables	2,513	1,901	0	0	2,513	1,901
Operating lease	1,547	1,765	0	0	1,547	1,765
Tax loss carry-forwards	85,738	74,193	0	0	85,738	74,193
Other items	60	3,301	0	0	60	3,301
Total	89,858	85,049	(29,211)	(46,213)	60,647	38,836

(vi) Movements in deferred tax balance during the year

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
Total	38,836	25,263	291	(3,602)	(141)	60,647

Consolidated Financial Statements of Icelandair Group hf. 2021 27 Amounts are in USD thousand

Notes, contd.:

23. Income taxes, contd.:

2020	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	(60,563)	14,680	226	0	(297)	(45,954)
Intangible assets	(307)	50	(2)	0	0	(259)
Derivatives	(13)	0	0	3,902	0	3,889
Trade receivables	409	1,489	(43)	0	46	1,901
Tax loss carry-forwards	35,394	43,765	(4,966)	0	0	74,193
Operating lease	1,572	197	(4)	0	0	1,765
Other items	(2,171)	1,477	2,767	1,318	(90)	3,301
	(25,679)	61,658	(2,022)	5,220	(341)	38,836

Tax loss carry-forwards are specified as follows:	2021
Tax loss from 2018 expire 2028	98,689
Tax loss from 2019 expire 2029	46,248
Tax loss from 2020 expire 2030	186,359
Tax loss from 2021 expire 2031	97,393
Tax loss carry-forwards total	428,689

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

24. Inventories

Inventories are specified as follows:	2021	2020
Spare parts	20,642	19,636
Other inventories	3,756	3,747
Inventories total	24,398	23,383

25. Marketable securities

At year-end marketable securities amounted to USD 58.2 million (2020: USD 41.7 million). Marketable securities consist of unit shares in local mutual funds that are valued at their year-end market price. No restrictions apply to the securities' redemption.

Realized and unrealized gains and losses are included in the Consolidated Income Statement and other Comprehensive Income as finance income and expenses.

26. Trade and other receivables

Trade and other receivables are specified as follows:	2021	2020
Trade receivables	47,632	33,258
Prepayments	17,126	6,894
Restricted cash	20,187	10,300
Lease receivables	2,623	5,400
Receivables due from related parties	16,174	13,323
Other receivables	14,675	30,159
Trade and other receivables total	118,417	99,334

At year-end trade receivables are presented net of an allowance for doubtful accounts of USD 17.6 million (2020: USD 14.3 million).

Prepayment and prepaid expenses which relate to subsequent periods amounted to USD 17.1 million (2020: USD 6.9 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 36.

Consolidated Financial Statements of Icelandair Group hf. 2021 28 Amounts are in USD thousand

Notes, contd.:

27. Cash and cash equivalents

Cash and cash equivalents are specified as follows:	2021	2020
Fixed term bank deposits	30,021	39,216
Bank deposits	174,481	78,179
Cash on hand	265	262
Cash and cash equivalents total	204,767	117,657

28. Equity

Share capital

The Company's share capital amounts to ISK 35,958,432 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 7,520,771 thousand in 2021. A total of 5,659,094,470 shares were sold to the Blue Issuer Designated Activity Company, a subsidiary of Bain Capital, and 1,861,676,632 shares were issued in relation to the exercise of warrant class ICEAIRW130821 (see note 32). 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 2021.

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.

Reserves are specified as follows:	Hedging reserve	Translation reserve	Reserve for profit share of associate	Total reserves
Balance 1 January 2020	29	24,300	21,120	45,449
Effects of profit or loss of subsidiaries and associates			(4,438)	(4,438)
Currency translation differences		(10,615)		(10,615)
Net loss on hedge of investment, net of tax		(5,274)		(5,274)
Effective portion of changes in fair value of cash flow hedges, net of tax	(38,442)			(38,442)
Cash flow hedges, reclassified to profit or loss	21,693			21,693
Balance at 31 December 2020	(16,720)	8,411	16,682	8,373
Effects of profit or loss of subsidiaries and associates			2,372	2,372
Currency translation differences		(2,203)		(2,203)
Net loss on hedge of investment, net of tax		(1,238)		(1,238)
Effective portion of changes in fair value of cash flow hedges, net of tax	12,412			12,412
Cash flow hedges, reclassified to profit or loss	4,400			4,400
Balance at 31 December 2021	92	4,970	19,054	24,116

Dividend

No dividend was paid to shareholders in 2020 and 2021.
The Board of Directors proposes no dividend payment to shareholders in 2022 for the year 2021.

Consolidated Financial Statements of Icelandair Group hf. 2021 29 Amounts are in USD thousand

Notes, contd.:

29. Earnings per share

Basic 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 the effect of warrants would not dilute the earnings per share only increase loss per share.

Basic earnings per share:	**2021**	**2020**
Loss for the year attributable to equity holders of the parent company	(104,298)	(366,567)
Weighted average number of shares for the year	31,605,606	12,054,099
Basic earnings per share in US cent per share	(0.33)	(3.04)
Diluted earnings per share in US cent per share	(0.33)	(3.04)

30. 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 36.

	Current interest bearing debt	Non-current interest bearing debt	Total
Total interest-bearing debt 1 January 2020	42,258	279,028	321,286
Repayment of borrowings	(42,257)	(21,874)	(64,131)
Cash flows related to financing activities	(42,257)	(21,874)	(64,131)
Accrued interest added to the loans	0	2,058	2,058
Financing activities without cash flows	0	2,058	2,058
Currency exchange difference	(1)	3,942	3,941
Expensed borrowing cost recognized in finance cost	0	434	434
Other liability related changes	(1)	4,376	4,375
Total interest-bearing debt 1 January 2021	0	263,588	263,588
Proceeds from loans and borrowings	0	3,098	3,098
Proceeds from loans and borrowings on assets held for sale	0	160	160
Transaction cost of long-term loans and borrowings	0	(29)	(29)
Repayment of borrowings	0	(20,365)	(20,365)
Cash flows related to financing activities	0	(17,136)	(17,136)
Proceeds from other payables	0	16,726	16,726
Loans on assets held for sale	0	(589)	(589)
Accrued interest added to the loans	0	536	536
Financing activities without cash flows	0	16,673	16,673
Currency exchange difference	0	(5,702)	(5,702)
Expensed borrowing cost recognized in effective interests	0	362	362
Other liability related changes	0	(5,340)	(5,340)
Total interest-bearing debt 31 December 2021	0	257,785	257,785

Loans and borrowings are specified as follows:

Non-current loans and borrowings:	**2021**	**2020**
Secured bank loans	238,612	263,588
Unsecured loans	19,173	0
Total loans and borrowings	257,785	263,588
Current maturities	(35,646)	(24,013)
Total non-current loans and borrowings	222,139	239,575
Current loans and borrowings:		
Current maturities of non-current liabilities	35,646	24,013
Total current loans and borrowings	35,646	24,013
Total loans and borrowings	257,785	263,588

Consolidated Financial Statements of Icelandair Group hf. 2021 30 Amounts are in USD thousand

Notes, contd.:

30. Loans and borrowings, contd.:

Terms and debt repayment schedule:

	Currency	Nominal interest rates year end 2021	Year of maturity	Total remaining balance 2021	2020
Secured bank loans	USD	3.3%	2023-2028	180,115	164,404
Secured bank loans	EUR	0.9%	2028	58,497	67,559
Secured bank loans	ISK			0	31,625
Unsecured loans	ISK	4.4%	2026	19,173	0
Total interest bearing liabilities				257,785	263,588

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 calculated interest revenue USD 2.8 million is included in Other interest income. 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 instalments from September 2022 to February 2023. The amount USD 9.3 millions is included in Other payables at year-end.

Icelandair Group 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 2021.

Additionally, the Company has access to a government guaranteed credit facility in the amount of USD 120 million. The facility is arranged through two local commercial banks and is 90% guaranteed by the government. The facility was undrawn at year-end 2021.

Repayments of loans and borrowings are specified as follows:	2021	2020
Repayments in 2021	-	24,013
Repayments in 2022	35,646	33,450
Repayments in 2023	46,847	44,080
Repayments in 2024	58,541	46,908
Repayments in 2025	34,605	28,120
Repayments in 2026	25,328	28,931
Subsequent repayments	56,818	58,086
Total loans and borrowings	257,785	263,588

As part of its financial restructuring the Group signed deferral agreements with all major lenders. The deferral agreements included renegotiated financial covenants of long-term loan agreements which cured any breaches thereof. The Group was not in breach of any financial covenants at year-end.

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

Consolidated Financial Statements of Icelandair Group hf. 2021 31 Amounts are in USD thousand

Notes, contd.:

31. 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 36.

Lease liabilities is specified as follows:	2021	2020
Balance at 1 January	146,597	158,453
Adjustments	513	3,450
Adjustments for indexed leases	(4,696)	(85)
New or renewed leases	133,858	7,060
Payment of lease liabilities	(37,554)	(30,906)
Interest of lease liabilities	7,299	8,300
Reclassified to liabilities held for sale	226	2,483
Currency translation adjustment	(584)	(2,159)
Balance at 31 December	245,659	146,597
Current maturities	(33,617)	(26,890)
Total non-current lease liabilities	212,042	119,707

	Rate	Land & Real Estate	Aircraft	Other	Total
Lease liabilities in USD	3.78%	128	233,825	35	233,988
Lease liabilities in ISK, indexed	3.97%	9,923	0	237	10,160
Lease liabilities in GBP	2.20%	972	0	0	972
Lease liabilities in other currency	2.93%	530	0	9	539
Total lease liabilities		11,553	233,825	281	245,659

Maturity analysis	2021	2020
Repayments in 2021	-	26,890
Repayments in 2022	33,617	22,223
Repayments in 2023	31,219	21,649
Repayments in 2024	28,614	18,542
Repayments in 2025	28,003	17,426
Repayments in 2026	26,908	16,619
Subsequent repayments	97,298	23,247
Total lease liabilities	245,659	146,597

The Group has made lease agreements for two 737 MAX aircraft (sale and leaseback) that are scheduled to be delivered in Q1 2022, and one 767 freighter that are scheduled to be delivered in the second half of 2022. The lease liability for these three aircraft will amount to approximately USD 86.7 million.

32. Warrant liabilities

Warrant liabilities are specified as follows:

Assumptions	ICEAIRW 180222	ICEAIRW 120822	Bain Capital 120822
Issue date	18.9.2020	18.9.2020	23.7.2021
Exercise period end date	18.2.2022	12.8.2022	12.8.2022
Share price (ISK) at issue date	1.00	1.00	1.43
Share price (ISK) at reporting date	1.82	1.82	1.82
Exercise price (ISK)	1.22	1.30	1.64
Interest rate (annual)	15.0%	15.0%	15.0%
First interest date	23.9.2020	23.9.2020	24.7.2021
Volatility (annual)	42.2%	38.3%	38.3%
Risk-free rate	2.8%	2.8%	2.8%
Time to maturity (years)	0.13	0.62	0.62
Fair value per warrant (ISK) at reporting date	0.54	0.51	0.29

Consolidated Financial Statements of Icelandair Group hf. 2021 32 Amounts are in USD thousand

Notes, contd.:

32. Warrant liabilities, contd.:

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
Fair value at issuance date	5,168	5,255	5,774	0	16,197
Loss on change in fair value of warrant liability	3,605	3,385	3,462	0	10,452
Foreign exchange difference	355	361	398	0	1,114
Total warrant liabilities 31.12.2020	9,129	9,001	9,634	0	27,764
Issued warrants	0	0	0	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

On 24 July, the Company issued 1,414,773,617 warrants to Bain Capital in relation to their subscription to 5,659,094,470 new shares in the Company. Each warrant allow for subscription of one new share in the Company at the price 1.43 per share plus 15% annual interest calculated according to 30/360-day convention from the issuance date of the warrant until the date falling ten (10) days after the publishing of the Company‘s 1H 2022 interim financial statements.

The fair value of all of the outstanding warrants at their respective issue dates, amounting to USD 19.5 million was recognized through retained earnings and as a liability. During the period from the issue date until 31 December 2021 the Company recognized loss on changes in fair value of its warrant liabilities in the amount of USD 2.3 million.

The warrant liabilities are considered Level 2 liabilities on the fair value hierarchy as the determination of fair value includes various assumptions about future activities, and the Company’s share price and historical volatility as inputs. Warrant class ICEAIRW130821 was exerciseable in Q3 with 97.1% of warrant holders opting to exercise their rights to purchase new shares in the Company at a price of 1.13 ISK pr. share. The total proceeds to the Company amounted to USD 16.4 million. Warrant class ICEAIRW180222 will become exerciseable in February 2022. Warrant classes ICEAIRW120822 and the Bain Capital warrant will become exerciseable in August 2022.

If warrant holders in all classes exercise their warrants in full a total of 5.248.106.951 new shares in the Company will be issued.

33. 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 2022. Non-current obligations are specified as follows:

	2021	2020
Non-current payables	29,457	31,335
Current portion, classified in trade and other payables	(6,073)	(14,248)
Total non-current payables	23,384	17,087
Non-current payables are scheduled to be repaid as follows:		
Repayments in 2021	-	14,248
Repayments in 2022	6,073	4,768
Repayments in 2023	7,145	332
Repayments in 2024	3,159	8,692
Repayments in 2025	4,024	3,033
Repayments in 2026	360	262
Subsequent	8,696	0
Total non-current payables, including current maturities	29,457	31,335

Consolidated Financial Statements of Icelandair Group hf. 2021 33 Amounts are in USD thousand

Notes, contd.:

34. Trade and other payables

Trade and other payables are specified as follows:	2021	2020
Trade payables	25,658	13,662
Credit lines from credit card acquirers	0	27,942
Current portion of engine overhauls and security deposits from lease contracts	6,073	14,248
Other payables	112,005	85,848
Total trade and other payables	143,736	141,700

As part of its financial restructuring the Group reached agreements with its main credit card acquirers whereby the latter agreed to grant credit lines and payment plans to assists the Group in processing the vast amount of refunds due to COVID-cancelled flights.
The credit lines were no longer needed, and thus abolished, ahead of schedule in April 2021. The payment plans were further completed 6 months ahead of schedule in November 2021.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 36.

35. 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:	2021	2020
Sold unused tickets and vouchers	223,975	157,753
Frequent flyer points	19,798	20,641
Other prepayments	15,307	9,008
Total deferred income	259,080	187,402

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 140.3 million (2020: USD 63.5 million) and vouchers amounted to USD 83.7 million (2020: USD 94.2 million). The vouchers are generally valid for 3 years from the date of 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.

36. 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 analyse 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.

Consolidated Financial Statements of Icelandair Group hf. 2021 34 Amounts are in USD thousand

Notes, contd.:

36. Financial risk management, contd.:

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 continously monitor management controls and procedures, the results of which are reported to the Audit Committee.

a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, marketable securities, which are kept with local and international banks with acceptable credit ratings, 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	2021	2020
Non-current receivables and deposits	22	18,987	21,686
Trade and other receivables	26	101,291	92,440
Marketable securities	25	58,197	41,713
Cash and cash equivalents	27	204,767	117,657
		383,242	273,496

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Credit risk is linked to trade receivables and agreements with financial institutions related to hedging. 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. The Group has neither experienced higher than usual credit losses in the past two years despite the extraordinary operating circumstances nor does it expect further losses in trade or other receivables 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 2021, the maximum exposure to credit risk for trade and other receivables by type of financial instrument was as follows:

	2021	2020
Credit cards	11,151	9,364
Trade receivables	36,481	23,894
	47,632	33,258
Other receivables	70,785	66,076
Trade and other receivables, see note 26	118,417	99,334

Impairment losses

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

	Gross 2021	Allowance for impairment 2021	Gross 2020	Allowance for impairment 2020
Not past due	31,314	(1,456)	15,821	(205)
Past due 1-30 days	2,561	(523)	4,494	(29)
Past due 31-120 days	15,705	(7,170)	12,907	(4,501)
Past due 121-365 days	11,556	(4,989)	9,284	(5,306)
More than one year	4,138	(3,504)	5,057	(4,264)
Total	65,274	(17,642)	47,563	(14,305)

Consolidated Financial Statements of Icelandair Group hf. 2021 35 Amounts are in USD thousand

Notes, contd.:

36. Financial risk management, contd.:

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

	2021	2020
Balance at 1 January	14,305	7,750
Impairment loss allowance, increase	2,832	6,556
Amounts written off	(493)	(634)
Exchange rate difference	998	633
Balance at 31 December	17,642	14,305

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 remains a joint guarantor for agreements already in place at the date of sale. See note 20.

b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities, settled by delivering cash or another financial asset. 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 204 million, and USD 58 million of marketable securities with trusted counterparties, total USD 263 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 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
Lease liability	245,659	299,054	46,100	82,344	89,830	80,780
Payables & prepayments	167,120	167,120	143,736	7,145	7,543	8,696
	670,564	751,003	236,000	142,476	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)

Consolidated Financial Statements of Icelandair Group hf. 2021 36 Amounts are in USD thousand

Notes, contd.:

36. Financial risk management, contd.:

31 December 2020	Carrying amount	Contractual cash flows	Within 12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Secured loans	263,588	290,935	30,768	41,476	131,439	87,252
Lease liability	146,597	166,794	29,786	27,096	66,789	43,124
Guarantees	0	4,184	0	0	1,293	2,891
Payables & prepayments	158,787	158,787	141,700	4,768	12,057	262
	568,972	620,700	202,254	73,340	211,578	133,529
Derivative financial liabilities						
Commodity derivatives	(16,555)	(16,590)	(10,554)	(6,036)	0	0
Margin accounts	3,446	3,446	1,793	1,653	0	0
Forward exchange contracts	(1,301)	(1,182)	(1,182)	0	0	0
- Outflow	(15,962)	(15,890)	(15,890)	0	0	0
- Inflow	14,661	14,708	14,708	0	0	0
Interest rate swaps	(2,881)	(2,902)	(1,154)	(810)	(777)	(161)
	(17,291)	(17,228)	(11,097)	(5,193)	(777)	(161)

Undrawn secured credit lines at year-end 2021 amounted to USD 52.0 million (2020: 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 (2020: USD 120.0 million) is available until mid-September 2022.

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 optimising the return. The Company holds some of its ISK holdings in mutual funds that invest in term deposits and bonds issued by rated domestic banks as well as government bonds. 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

Carbon emission is a fixed proportion of the fuel consumption but the price volatility of carbon has been greater. Carbon prices rose significantly in 2021. Procurement of emission allowances has material effects on the cost of operations. Due to the COVID-19 pandemic and the lower-than-normal scope of operations, particularly in the first half of the year, along with the residual allowance from 2020, the free allowances provided by the ETS will materially counter the commitments for 2021. Therefore the risk has been non-existent in 2021, as ramp-up progresses and usage will exceed the free allowance in 2022 the risk will arise again.

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 as reflected in its currently approved hedging policy is to hedge between 40% and 60% of estimated fuel consumption 12 months forward and up to 20% from 13-18 months forward. However, the Group temporarily halted all fuel hedging at the outset of the Covid-19 pandemic and has not entered any new hedge positions since February 2020. The Company's pre-Covid positions were restructured in July 2020 with the last of the pre-existing contracts maturing in July 2022. The Group closely monitors developments in the oil market and may resume hedging activities as opportunities arise. The hedging policy allows for both swaps and options traded with approved counterparties and within approved limits. All pre-existing hedge positions were forward contracts. Any new fuel hedging contracts will likely include some type of stop-loss mechanism to limit the associated risk.

Consolidated Financial Statements of Icelandair Group hf. 2021 37 Amounts are in USD thousand

Notes, contd.:

36. Financial risk management, contd.:

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	
	2021	2020
Increase in fuel prices by 10%	1,760	2,884
Decrease in fuel prices by 10%	(1,760)	(2,884)

At year-end 2021 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 cash flow and balance sheet currency risk as shown in the table below, that are denominated in currencies other than the respective functional currencies of Group entities.

The Group seeks to reduce its foreign exchange exposure arising from currency mismatch in the cash flow by netting receipts 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 COVID-19 pandemic has however temporarily changed both the cash flow and the balance sheet exposure. The share offering in 2020 was conducted in ISK and therefore the ISK short 12 month cash flow position shifted to a long position. As a result ISK denominated financial assets were more dominant than before. The year 2021 saw a conversion back to pre-COVID-19 exposures.

Exposure to currency risk

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

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

Consolidated Financial Statements of Icelandair Group hf. 2021 38 Amounts are in USD thousand

Notes, contd.:

36. Financial risk management, contd.:

2020	ISK	EUR	GBP	DKK	SEK	CAD
Receivables / payables, net	(100,558)	3,429	(369)	21	(29)	1,192
Marketable securities	41,713	0	0	0	0	0
Cash and cash equivalents	83,912	2,860	624	424	35	322
Secured bank loans	(31,720)	(68,247)	0	0	0	0
Warrants	54,865	0	0	0	0	0
Lease receivables	696	0	651	0	0	0
Lease liabilities	(13,019)	(661)	(1,236)	(188)	0	0
Forward exchange contracts	14,742	(4,911)	0	(3,301)	(3,062)	(4,712)
Net statement of financial position exposure	50,632	(67,530)	(330)	(3,044)	(3,055)	(3,198)
Next 12 months forecast sales	93,467	75,882	16,723	6,821	10,027	20,133
Next 12 months forecast purchases	(147,627)	(49,988)	(6,002)	(3,222)	(539)	(3,003)
Capex thereof	(11,473)	(555)	0	0	0	0
Currency exposure	(3,529)	(41,637)	10,391	556	6,433	13,932

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

	Average rate		Year-end spot rate	
	2021	2020	2021	2020
ISK	0.0079	0.0074	0.0076	0.0078
EUR	1.18	1.14	1.13	1.23
GBP	1.38	1.28	1.35	1.36
CAD	0.80	0.75	0.79	0.79
DKK	0.16	0.15	0.15	0.17
SEK	0.12	0.11	0.11	0.12

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 reporting date.

	Directly in equity	Profit or loss	Total effect on equity
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
2020			
ISK	(7,109)	3,059	(4,051)
EUR	393	5,010	5,402
GBP	0	26	26
DKK	264	(21)	243
SEK	245	(0)	244
CAD	377	(121)	256

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.

Consolidated Financial Statements of Icelandair Group hf. 2021 39 Amounts are in USD thousand

Notes, contd.:

36. Financial risk management, contd.:

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**	
	2021	**2020**
Commodity derivatives and forward exchange contracts (Carrying amount)	1,227	(17,772)
Interest rate swaps (Notional amount)	(58,629)	(78,096)
	(57,402)	(95,868)
Variable rate instruments		
Financial assets (Carrying amount)	262,699	159,108
Financial liabilities (Carrying amount)	(268,221)	(273,750)
	(5,522)	(114,642)

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 currency rates, remain constant.

	100 bp increase	**100 bp decrease**
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)
31 December 2020		
Commodity derivatives and forward exchange contracts	113	(115)
Interest rate swaps	2,438	(2,563)
Fair value sensitivity (net)	2,551	(2,678)

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.

	100 bp increase	**100 bp decrease**
31 December 2021		
Variable rate instruments	(44)	44
Cash flow sensitivity (net)	(44)	44
31 December 2020		
Variable rate instruments	(917)	917
Cash flow sensitivity (net)	(917)	917

Consolidated Financial Statements of Icelandair Group hf. 2021 40 Amounts are in USD thousand

Notes, contd.:

36. Financial risk management, contd.:

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 has to be considered highly likely on the basis of a robust forecast of operations. All outstanding fuel hedges are effective.

Following table shows effective and ineffective hedges:

31.12.2021	Closed YTD	1-6 months	7-12 months	> 13 months	Total
Fuel		944	0	0	944
Currency		(382)	0	0	(382)
Interest rate swap		(121)	(195)	(182)	(498)
Margin accounts		1,653	0	0	1,653
Total derivatives, Payable		2,094	(195)	(182)	1,717
Tax		(98)	39	36	(23)
Derivatives used for hedging, Equity		393	(156)	(146)	91
Ineffective fuel derivatives, P&L	0	0	0	0	0

Dividend

The Board of Directors has agreed not to propose a payment of dividends for the fiscal years 2020 and 2021 in relation to the Group's financial restructuring and agreements made with stakeholders. However, 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.”

37. 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 2021	Fair value 2021	Carrying amount 2020	Fair value 2020
Derivatives used for hedging	1,717	1,717	(17,291)	(17,291)
Unsecured bond issue	(19,173)	(19,308)	0	0
Secured loans	(238,612)	(248,043)	(263,588)	(279,654)
Warrants	(18,395)	(18,395)	(27,764)	(27,764)
Lease liabilities	(245,659)	(245,659)	(146,597)	(146,597)
Total	(520,122)	(529,688)	(455,240)	(471,306)

Fair value hierarchy:

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

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)

Consolidated Financial Statements of Icelandair Group hf. 2021 41 Amounts are in USD thousand

Notes, contd.:

37. Financial instruments and fair value, contd.:

31 December 2020

Financial liabilities	Level 1	Level 2	Level 3	Total
Warrants		(27,764)		(27,764)
Secured loans			(279,654)	(279,654)
Lease liabilities			(146,597)	(146,597)
Derivatives used for hedging		(17,291)		(17,291)
	0	(45,055)	(426,251)	(471,306)

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.

38. Capital commitments

The Group has taken delivery of nine 737 MAX8 / MAX9 aircraft out of the total twelve included in the purchase agreement with the Boeing Company which was signed in 2013 and amended in 2020. Two of the undelivered aircraft were scheduled to be delivered in Q4 2021, but delivery was postponted until Q1 2022.
The Pre-Delivery Payments (PDP) of the three aircraft that remain undelivered are financed under the (PDP) financing agreement with BOC Aviation (BOCA) signed in 2018.

The remaining original order book deliveries of Boeing 737 MAX aircraft to the Group are scheduled as follows:

	Q1 2022
Boeing 737 MAX8	2
Boeing 737 MAX9	1
Total	3

In September 2021, the Group secured financing of these three aircraft with Aviation Capital Group (ACG). The two 737 MAX 8 aircraft as sale-leaseback transactions and the one 737 MAX 9 under an asset-backed loan agreement.

Consolidated Financial Statements of Icelandair Group hf. 2021 42 Amounts are in USD thousand

Notes, contd.:

39. 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.

2021	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	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			
2020				
Board of Directors:				
Úlfar Steindórsson, Chairman	64.6	7.4		17,240
Svafa Grönfeldt, Vice Chairman	53.9	6.2		10,000
John F Thomas	28.6	3.3		2,716
Nina Jonsson	28.6	3.3		
Guðmundur Hafsteinsson	43.5	5.0		
Heiðrún Emilía Jónsdóttir, former board member	9.9	1.3		
Ómar Benediktsson, former board member	10.1	1.4		10,765
Key employees:				
Bogi Nils Bogason Group CEO	355.0	76.0		19,250
Seven members of Executive committee **	1,860.7	305.0		60,111
Gender ratio for key employees (male / female)	64/36			

* Including financially related

** Number of executives were eight for the first four months of the year 2020

No stock option contracts were open at year-end 2020 and 2021. However, as part of the 2020 share offering all investors were allotted warrants which are listed on the Icelandic Stock Exchange. Investors can exercise these warrants to buy additional shares. Members of management and those directors that participated in the offering hold such warrants.

Transaction with associates

The Group purchased and sold services to associates for immaterial amounts in 2021 and 2020. At year-end, the Company had a long term receivable on its associate Lindarvatn amounting to USD 16.6 million.

Transaction with shareholders

There are no shareholders with significant influence at year-end 2021. Companies which members of the Board and key employees control have been identified as being fifteen. These companies have been identified as related. Transactions with them where immaterial in 2021.

Consolidated Financial Statements of Icelandair Group hf. 2021 43 Amounts are in USD thousand

Notes, contd.:

40. 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 Icelandair Hotels for lease payments of up to ISK 138 million as a guarantor. The ruling has been appealed to the National Court. The said amount may be claimed from Icelandair Group if the ruling of the District Court will be upheld and Icelandair Hotels will also be unable to pay the amount.

Company's subsidiary Loftleiðir Icelandic is the owner of an aircraft that is currently located in Cabo Verde and is under CVA registry. The aircraft is in the process of being de-registered from the Cabo Verde aircraft registry but the process has been delayed due to claims made by local authorities. The aircraft is expected to be de-registered in the coming months.

41. Group entities

The Company held the following significant subsidiaries at year-end 2021 which are all included in the Consolidated Financial Statements:

	Ownership interest	
	2021	**2020**
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%
Iceland Travel ehf.	0%	100%

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

42. General government measures

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

At the outset of the COVID-19 pandemic the Group and the Icelandic Government entered into agreements whereby Icelandair committed to maintain a certain number of domestic and international flights per week to ensure minimum passenger flight transportation to and from Iceland. Under these agreements, the Group received payments from the Icelandic Government which have been accounted for as Other revenue of USD 0.6 million.

As part of its COVID relief efforts the government offered loss-of-income subsidies to support business operators who have suffered losses as a result of the pandemic. This was a general relief measure available to all companies in Iceland that met the associated criteria. The Group's total subsides amounted to USD 1.5 milion.

The government also offered deferral of payroll tax payments. This was a general relief measure available to all companies in Iceland that met the associated criteria. The deferred payments amounted to USD 9.3 million and are payable in monthly installments from September 2022 to February 2023.

Consolidated Financial Statements of Icelandair Group hf. 2021 44 Amounts are in USD thousand

Notes, contd.:

43. Ratios

The Group's primary ratios at year end are specified as follows:	2021	2020
Current ratio	0.83	0.70
Equity ratio	0.19	0.23
Equity ratio without warrants	0.21	0.25
Intrinsic value of share capital	0.82	1.09

44. 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:		2021	2020
Acquisition of right-of-use assets	17	(132,646)	(3,938)
New or renewed leases	31	133,858	7,060
Gain on sale due to sales and leaseback		(2,460)	0
Non-current receivables		1,248	(3,121)
Loans and borrowings		16,726	0
Trade and other payables		(16,726)	0
Warrants issued	32	(795)	(16,197)
Retained earnings		795	16,197

45. 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.

Consolidated Financial Statements of Icelandair Group hf. 2021 45 Amounts are in USD thousand

Notes, contd.:

45. 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 twelve months from the month of sale 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.:

45. 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.:

45. 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 costs

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 costs 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.:

45. 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.:

45. 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. Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets or deferred tax assets which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribuiton and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held-for-sale, intangible assets and operating assets are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

l. 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.:

45. Significant accounting policies, contd.:

l. 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.:

45. Significant accounting policies, contd.:

l. 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 36). 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.:

45. Significant accounting policies, contd.:

m. 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.

n. 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.:

45. Significant accounting policies, contd.:

n. 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.

o. 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.

p. 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.

q. 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.

r. 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.:

45. Significant accounting policies, contd.:

s. 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.

46. Standards issued but not yet effective

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 consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.
- Onerous contracts – Cost of Fulfillinn a Contract (Amendments to IAS 37)
- Deferred tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
- COVID-19-Related Rent Concessions (Amendment to IFRS 16).
- Annual improvements to IFRS standards 2018-2020.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- 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. No government organization has found the Company to be in breach of any rule or regulation regarding corporate governance.
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	Strategy Committee	Health & Safety Committee
Nr. of meetings in 2021	27	4	4	8	4	3
Guðmundur Hafsteinsson	x (Chairm.)		x (Chairm.)			
Nina Jonsson	x		x		x	x
Svafa Grönfeldt	x	x			x (Chairm.)	
John F. Thomas	x	x			x	x (Chairm.)
Matthew Evans	x				x	
Ulfar Steindorsson	(half year)			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. Managing 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 aspires to implementing 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 2021.

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 is 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 inquires 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 Executive committee and senior managers 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 payouts 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.

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 labor 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.:

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 2021 it was agreed that the remuneration to the Board Members and Sub-Committee Members would be the same as 2020.

Remuneration Committee members:
  Gudmundur Hafsteinsson, Chairman
  Nina Jonsson

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 eight meetings in 2021 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

The purpose of the Strategy Committee is to maintain oversight over the development and implementation of Icelandair Group's strategy and the risks to it. In addition, the Committee serves as a forum for in-depth discussions on Icelandair Group's strategy and relevant considerations between the Board of Directors, the Executive Committee, and functions responsible for strategy development and implementation. At the start of its term, the Board of Directors selects up to four of its members to sit on the Strategy Committee.

The Strategy Committee was formed to foster closer involvement from the Board of Directors with Icelandair Group's strategy development and implementation. As a whole, the Committee has extensive knowledge and experience of airline strategy and strategic implementation in addition to a strong network within the industry. As a result, it can provide valuable support to the Icelandair organization on strategic topics. The committee held four meetings in 2021.

Strategy Committee members:
Svafa Grönfeldt, Chairman
John F. Thomas
Nina Jonsson
Matthew Evans

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 Icelandair organization on health & safety topics. The committee held three meetings in 2021.

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 12 March 2021, the following were elected members of the Board of Directors; Svafa Grönfeldt, Gudmundur Hafsteinsson, John F. Thomas, Nina Jonsson and Ulfar Steindorsson. At a shareholder meeting on 23 July 2021, Matthew Evans was elected to the Board of Directors and replaced Ulfar Steindorsson. Gudmundur Hafsteinsson took on the role of Chairman of the board.

Gudmundur Hafsteinsson, Chairman

Born in 1975. Member of the Board of Directors since 8 March 2018. Nationality is Icelandic and US.

Gudmundur Hafsteinsson is an investor and entrepreneur and previously led product development for Google Assistant at Google. He joined Google in 2014 subsequent to the merger of Google and Emu, a chat-based virtual assistant start-up he founded in 2012. Prior to the founding of Emu, he was VP Product at Siri, and stayed on after the acquisition by Apple through the launch of Siri on iPhone 4S. Prior to Siri/Apple, Guðmundur was a Senior Product Manager at Google, where he managed the initial launches of Google Maps for mobiles and Google Voice Search. Guðmundur holds an MBA degree from MIT and a BSc. degree in Electrical and Computer Engineering from the University of Iceland.

Gudmundur is independent of the company and has 8,555,555 shares.

Nina Jonsson, Vice Chairman

Born in 1967. Member of the Board of Directors since 6 March 2018. Nationality is Icelandic and US.

Nina Jonsson is currently a Senior Advisor at aviation consultancy Plane View Partners and a board member at aviation technology firm FLYHT. Between 2015 and 2017, she held the role of Senior Vice President Group Fleet at Air France-KLM Group where she was responsible for group-wide fleet strategy, aircraft sourcing, leasing and sales. Previously, Ms. Jonsson held a number of other executive positions within the aviation industry including Fleet Management Officer at the Bristow Group (2012-15), Director Fleet Planning at United Airlines (2006-2011) and Director Fleet Management at US Airways (2002-2005). Ms. Jonsson holds an MBA degree from Rensselaer Polytechnic Institute and a B.Sc. degree in Air Transport Management from the University of New Haven.

Nina is independent of the company and has no shares.

John F. Thomas

Born in 1959. Member of the Board of Directors since 6 March 2018. Nationality is Australian and US.

John F. Thomas is owner and CEO of Waltzing Matilda Aviation LLC, a jet charter and aircraft management company based in Boston that he founded in 2008. From 2016-2017, Mr. Thomas was Group Executive at Virgin Australia Airlines where he led a financial turnaround as CEO of a AU$ 4.0bn (appr. USD 3bn) full service carrier with over 6,000 employees and 125 aircraft, and from 1990-2016 he was with the global strategy consulting firm L.E.K. Consulting, as a Managing Director/Senior Partner from 1993 and created and led the Global Aviation Practice for over 16 years. Additionally he is a Senior Advisor to the management consultancy McKinsey & Co., the aviation infrastructure firm Nieuport Aviation Infrastructure Partners GP and the tourism technology firm Plusgrade. He also sits on the Board of SkyService Inc. the largest corporate aviation provider in Canada where he also Chairs its Health and Safety committee. He continues to provide advisory work to the global airline industry. Mr. Thomas holds an MBA degree from Macquarie University Graduate School of Business (which included 9 months at the MBA program at INSEAD) and a Bachelor of Commerce degree from the University of New South Wales.

John is independent of the company and has 2,941,900 shares.

Corporate Governance Statement, contd.:

Board of Directors, contd.:

Svafa Grönfeldt

Born in 1965. Member of the Board of Directors since 8 March 2019. Nationality is Icelandic.

Svafa Grönfeldt is a Professor of Practice at the Massachusetts Institute of Technology. She is a founding member of MIT's newest innovation accelerator DesignX focused on the design and development of technology and service-based ventures created at MIT. Svafa is the co-founder of The MET fund, a Cambridge based seed investment fund. She is a member of the Board of Directors of Össur since 2008 and Origo since 2019. Previous positions include executive leadership positions at two global life science companies where she served as Chief Organizational Development Officer of Alvogen and Deputy to the CEO of Actavis Group. Her executive career has been focused on organizational design for high growth companies, strategy implementation, service process design for operational improvement and performance tracking. She is a former President of Reykjavik University. Svafa holds a Ph.D. from the London School of Economics where she examined the impact of customer-oriented behaviours and service design on business outcomes.
Svafa is independent of the company and has 10,833,334 shares.

Matthew Evans

Born in 1986. Member of the Board of Directors since 23 July 2021. Nationality is US.

Matthew Evans joined Bain Capital Credit in 2009. He is a Managing Director in the Industry Research team based in Bain Capital Credit's New York office, where he oversees investments in the Aviation, Aerospace & Defense, and Industrials sectors. Mr. Evans sits on a number of portfolio company boards and has also led the development of several external partnerships and joint ventures within the aviation sector. Mr. Evans received a B.A. Phi Beta Kappa, summa cum laude from Yale University.

Matthew is independent of the company. He sits on the Board representing Bain Capital Credit. He neither holds shares nor share options in the Company.

Executive committee

Bogi Nils Bogason, President & CEO
Born in 1969. Nationality is Icelandic
Bogi Nils has served as President and CEO of Icelandair Group since December 2018 after having served as CFO since 2008 and Interim President and CEO from August 2018. He was the CFO of the investment bank Askar Capital from January 2007 and the CFO of the international seafood company Icelandic Group from 2004 to 2006. Bogi Nils served as an Auditor and Partner at KPMG in Iceland during the years 1993-2004. He holds a Cand. Oecon. Degree in Business from University of Iceland and is a Chartered Accountant.
Bogi has 20,708,334 shares but holds no share options and has no no interest links with the Company's main clients, competitors, or major shareholders.

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
Tomas Ingason, Chief Revenue Officer

The executive committee held 76 meetings in 2021. Birna Osk Einarsdottir, CCO, Eva Soley Gudbjornsdottir, CFO and Jens Thordarson, COO left the Company during the year. 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.

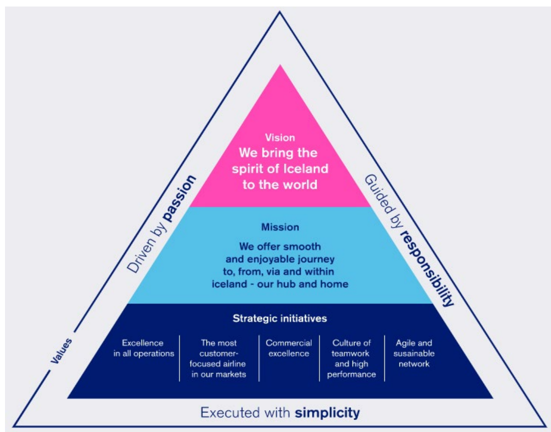
On 12 September 2007 the Board of Directors approved Rules on Working Procedures for the Board which were amended on 10 August 2012 and 9 February 2018. The Rules on Working Procedures are accessible to the Board of Directors and the management through the Board's intranet, Admincontrol. In accordance 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 27 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 2021 with the exeption of Matthew Evans, who entered the Board representing the largest shareholder in July 2021.

Non-Financial Reporting

Business Model

The heart of the Icelandair Group’s business model is its international route network and the unique location of Iceland which serves as a connecting hub between Europe and North America and is the foundation for the Company’s value creation for its shareholders and other stakeholders. In addition, the Company runs both cargo and aircraft leasing and consulting services that complement and further strengthen its core network operations. During 2021, Icelandair Group continued to further align its operations to its core business, aviation, and the importance of Iceland as its hub and home. The vision of bringing “the spirit of Iceland to the world” and the mission of offering “smooth and enjoyable journeys to, from, via and within Iceland – our hub and home”, are supported by five strategic initiatives. These are: Sustaining a “culture of teamwork and high performance”, becoming “the most customer-focused airline in our markets”, achieving “excellence in all operations” as well as achieving „commercial excellence“, in addition to operating an “agile and sustainable network.”



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.

The Company has approached groups of stakeholders for their views on which sustainability matters relating to Icelandair Group’s decisions and activities are material for them.

Based on this stakeholder dialogue, and in line with macroeconomic trends and industry-specific developments, as well as the Company’s corporate strategy and approach to sustainability, the following matters have been defined as the most material when it comes to sustainability in Icelandair Group’s operations: climate impact, other environmental impact, passenger safety and well-being, employee health and safety, employee satisfaction and development, gender equality and diversity, contribution to the Icelandic economy, responsible procurement, business ethics and anti-corruption, as well as governance.

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 issues an annual report where its sustainability information is presented in accordance with the Nasdaq's ESG Reporting Guide– Environment, Society and Governance. The Company previously worked towards implementing the Global Reporting Initiative (GRI) standards but has postponed the work for now and will be re-evaluated for next year. Specific targets have been set for the Company’s key sustainability focus areas and action plans developed. Following is further information on the responsible actions Icelandair Group has taken during the pandemic, as well as an overview of the key areas of sustainability according the ESG Reporting Guide.

Non-Financial Reporting, contd.:

The effects of Covid-19 on operations in 2021

The aviation and tourism industries started to recover in 2021 although they continued to be affected by the COVID-19 pandemic. Icelandair focused both on short- and long-term measures during the year. This involved gradually ramping up its services, using its flexibility to adapt to the changes in its markets and according to the developments of the pandemic. At the same time, the Company took actions to streamline and strengthen its operations for the long term. This was supported by maintaining flexibility within the workforce and during the period from April to August, the number of employees increased by 1,000. Health and safety of employees and customers has been at the forefront ever since the start of the pandemic, with extensive measures taken across the Company and on board its aircraft. Good service to customers has also remained a top priority, providing flexibility and meeting the increased need for information. The development of effective technical solutions, to shorten response times, continued during 2021. Turnover rates and FTEs year end for 2019 include Icelandair Hotels.

	2021	2020	2019
Turnover rates	7%	69%	12%
FTEs year end	2393	1531	4256

Environment SDG#13

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. Icelandair is certified to the highest level of the IEnvA environmental assessment program from IATA, which requires demonstration of ongoing environmental performance improvements.

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, such as with the International Air Transport Association (IATA) and Airlines for Europe (A4E).

Furthermore, Icelandair Group participates in the incentive project of Responsible Tourism in Iceland along with over 300 companies, with the purpose of maintaining Iceland's status as an optimal future destination for tourists by supporting sustainability for future generations.

Icelandair Group's Environmental Policy

Icelandair Group's Environmental Policy was updated in 2021, further information can be found on Icelandair Group's website.

Emissions

Icelandair Group 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

In 2021 the Company continued to be impacted by the global pandemic, like the airline and tourism industries as a whole. From spring 2021, the number of flights began to increase and the fleet that had been in storage gradually returned to service. The Company kept the focus on meeting demand for cargo transport, protecting important export from Iceland and importing necessities to the country. In the year 2021 the Company also took on special projects all around the world through its leasing operations. The total emissions from aviation in 2021 were 484,955 tCO2e, a reduction of 64% compared to 2019. The emission from the route network now includes domestic and regional routes.

Non-Financial Reporting, contd.:

Emissions, contd.:

The Company's Boeing 737 MAX aircraft were gradually returned to service in 2021. They are of a new generation of more environmentally friendly aircraft and therefore an important part of reducing carbon emissions in the operation. Fuel efficiency is measured in fuel burn per operational tonne kilometre (OTK) which takes into consideration the weight of the aircraft, passengers and cargo. The implementation of the MAX aircraft resulted in better fuel efficiency numbers in 2021 than in 2019 despite a lower load factor in the passenger network of 65.2% for the full year 2021 compared to 82% load factor in 2019.

	2021	2020
Total CO2 emissions	484,955	347,372
kgCO2 emissions per OTK	0.93290	1.29688

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.

	2021	2020
Amount of waste	688 tons	535 tons
Sorted waste	40%	43%
General waste	60%	57%

The Company has, in co-operation with its waste service provider, changed the frequency of the waste collection to eliminate unnecessary trips with empty waste containers

Carbon Compensation

Icelandair has offered passengers the option to offset the carbon footprint of their air travel since September 2019. Passenger participation in this program in 2021 has contributed to the planting of around 5000 trees during the year. The carbon offset program was devised in co-operation with Klappir Green Solutions and Kolvidur – the Iceland Carbon Fund to cultivate forests in Iceland.

Society SDG#8

As the airline that brings the majority of tourists to Iceland and as an important employer in the country, a successful ramp-up of its operations in 2021 is vital for Icelandic tourism, the local economy and society at large. Icelandair Group contributes directly to the Icelandic economy in the form of salary, 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 Group 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". As an example, Icelandair supports Icelandic music through Iceland Airwaves and Icelandic Music Experiments. Icelandair has also been a proud sponsor of the main sports federations in Iceland. 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 with children with long-term illnesses and children who live in difficult circumstances.

Employees

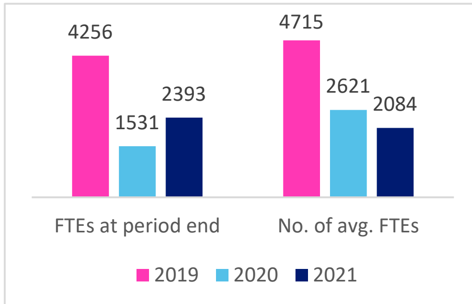
Icelandair Group‘s employees are one of the Company‘s greatest strategic assets. All employees are part of the same team and the Company‘s core values, passion, simplicity and responsibility, are guiding the Company to maintain a strong and motivating company culture.

Along with the ramp up of Icelandair's operations during the year the number of employees increased by 1000.

Non-Financial Reporting, contd.:

Employees, contd.:

Icelandair was awarded a World Class Workplace, number one globally, by Effectory, a leading European provider of HR solutions. This award is awarded to high performing organizations once a year that show excellence in employership and is based solely on the opinions of employees. Following a company-wide survey, the results are compared to Effectory's reliable benchmarks. The results demonstrate that Icelandair Group's employees are very satisfied and engaged.



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.

Extensive measures were taken during the continued pandemic in 2021 to ensure the health and safety of Icelandair Group employees. Special preventive arrangements were made to ensure the safety of all employees. 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 implemented a new policy regarding remote working called 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 always 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. The Company is proud of how its team of people has adapted to new working conditions and constant changes regarding Covid-19 restrictions.

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 specially important.

	2021	2020
Overal gender ratio, men / women	55% / 45%	52% / 48%

Non-Financial Reporting, contd.:

Equal Rights, contd.:

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 positions, cabin crew positions and aircraft maintenance.

Objectives for 2025

- Never less than 40% of either men or women in management positions
- Increase the number of female pilot positions by 25%
- Increase the number of male cabin crew positions by 25%
- 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. Icelandair and Icelandair Cargo were audited in 2021 and will be recertified 2022-2025.

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 2021. 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.

Responsible Business SDG#12

In 2021 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. In 2020 the Company implemented a Code of Conduct for suppliers and set targets with regards to responsible procurement and to ensure a repsonsible supply chain. By end of 2020 all critical domestic suppliers have received Icelandair Group's Supplier Code of Conduct and as of 2021 it is an integral part of most new and renewed contracts.

In 2021 a risk screening model to evaluate suppliers was developed and actions to act on the assessment were established. 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. The goal was that all significant suppliers had gone through the risk screening model by end of 2021 but due to the operating circumstances caused by the pandemic that was not possible but the Company will continue to work towards that in 2022.

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 or 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 on the basis of gender, age, origin, religion, operating field, opinions or position in other respects, is not permitted.

Icelandair Group's policy and its related actions against bullying, and sexual and gender-related harassment and violence include clear procedures and preventive measures. Information on the policy can be accessed on the Company’s intranet, together with a plan of action that details the options available to employees who feel victimised. All managers received appropriate training and open lectures were held for all employees to attend.

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 policy can be found on the Company website.

ESG Accounting

Environmental Metrics

E1 GhG Emissions	Units	2021	2020
Total amount, in CO2 equivalents, for Scope 1	tCO2e	486,064	355,779
Total amount, in CO2 equivalents, for Scope 2	tCO2e	213	214
Total amount, in CO2 equivalents, for Scope 3	tCO2e	68	174
E2 Emissions Intensity			
Total GhG emission per output scaling factor	tCO2e per USDk	0.83	0.82
	tCO2e per FTEs	233	143
	tCO2e per passenger	0.33	0.47
E3 Energy Usage			
Total amount of energy directly consumed (fossil fuels)	kWh	1,973,201,386	1,474,663,115
Total amount of energy indirectly consumed (electricity and heat)	kWh	22,904,111	24,223,530
E4 Energy Intensity			
Total direct energy usage per output scaling factor	kWh per USDk	3,413	3,457
	kWh per FTEs	957,824	603,660
	kWh per passenger	1,366	1,965
E5 Energy Mix			
Non renewable energy (fossil fuels aret he primary energy source)	%	99%	98%
Renewable energy	%	1%	2%
E6 Water Usage			
Total amount of water consumed	m3	346,556	330,923
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 (fossil fuel)	Yes
Does your company use a recognized energy management system	Yes/No	Yes (fossil fuel)	Yes (fossil fuel)*
E8 Climate Oversight / Board			
Does your Board of Directors oversee and/or manage climate-related risks	Yes/No	No	No

* Restated

Non-Financial Reporting, contd.:

Environmental Metrics, contd.:	Units	2021	2020
E9 Climate Oversight / Management			
Does your Senior Management Team oversee and/or manage climate-related risks	Yes/No	No	No
E10 Climate Risk Mitigation			
Total amount invested, annually, in climate-related infrastructure, resilience, and product development		-	-
Social data metrics			
S1 CEO Pay ratio			
CEO total compensation to median FTE total compensation	ratio	6.4	4.58
Does your company report this metric in regulatory filings	Yes/No	Yes	Yes
S2 Gender Pay Ratio			
Gender pay analysis (basic earnings)	%	women 0,4% lower than men	women 0,93% lower than men
Gender pay analysis (regular earnings)	%	men 3% higher than women	men 2,8% higher then women
S3 Employee Turnover			
Year-over-year change for full-time employees	%	7%	69%
S4 Gender Diversity			
Total enterprise headcount held by men and women	women/men%	55/45	48/52
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%	25/75	38/62
S5 Temporary Worker Ratio			
Total enterprise headcount held by part-time employees	women/men%	-	-
Total enterprise headcount held by contractors and/or consultants	women/men%	-	-
S6 Non-Discrimination			
Does your company follow a sexual harassment and/or non-discrimination policy	Yes/No	Yes	Yes
S7 Injury Rate			
Frequency of injury events relative to total workforce time		-	-
S8 Global Health & Safety			
Does your company follow an occupational health and/or global health & safety policy	Yes/No	Yes	Yes
S9 Child & Forced Labour			
Does your company follow a child and/or forced labour policy	Yes/No	Part of CoC	Part of CoC
If yes, does your child and/or forced labor policy also cover suppliers and vendors	Yes/No	Part of SCoC	Part of SCoC
S10 Human Rights			
Does your company follow a human rights policy	Yes/No	Yes	Yes
If yes, does your human rights policy also cover suppliers and vendors	Yes/No	Yes	Yes

Non-Financial Reporting, contd.:

Governance Metrics

	Units	2021	2020
G1 Board Diversity			
Total board seats occupied by women (as compared to men)	%	40%	40%
Committee chairs occupied by women (as compared to men)	%	25%	25%
G2 Board Independence			
Does company prohibit CEO from serving as board chair	Yes/No	Yes	Yes
Total board seats occupied by independants	%	80%	100%
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
G9 Disclosure Practices			
Does your company provide sustainability data to sustainability reporting frameworks ?	Yes/No	Yes	No
Does your company focus on specific UN Sustainable Development Goals (SDGs)	Yes/No	Yes	Yes
Does your company set targets and report progress on the UN SDGs	Yes/No	Yes	Yes
G10 External Assurance			
Are your sustainability disclosures assured or validated by a third party	Yes/No	No	No

More Information

Further information about Icelandair Group's Corporate Social Responsibility 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:

- 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. 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.

The ongoing Covid-19 pandemic has and will continue to have meaningful negative effects on the global economy not least the aviation sector. Although 2021 saw some recovery from the unprecedentedly low 2020 operational levels the recovery was slower than initially anticipated. Moreover, the recovery has not proved linear due to new variants of the virus causing renewed fear and consequently tightened travel and social restrictions in most of the Company’s markets.

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

The legal and regulatory landscape of airlines is ever evolving, as indeed newly demonstrated by the plethora of governmental restrictions, protective measures and sanitation procedures introduced in relation to the spread of Covid-19, which by necessity were implemented practically overnight. Another 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 business. 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 achive those targets. Action plans relate to Sustainable aviation fuels, operational improvements, 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.

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.

Operational Risk, contd.:

Technical risk, contd.:

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.

The Company seeks to maintain good relations with its union representatives through active dialogue and regular meetings to foster a culture of mutual respect and understanding.

Reputational risk

computer faults, accidents, labor unrest, weather conditions, delays by service providers, congestion, and unexpected maintenance. Additionally, increased focus on ESG 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 2021					
Operating income					
Transport revenue	35,556	55,008	206,829	156,475	453,868
Aircraft and aircrew lease	11,009	7,804	9,601	14,262	42,676
Other operating revenue	10,763	14,712	41,094	21,800	88,369
	57,328	77,524	257,524	192,537	584,913
Operating expenses					
Salaries and salary related expenses	(35,290)	(52,503)	(60,395)	(67,297)	(215,485)
Aviation expenses	(21,395)	(39,027)	(90,173)	(84,857)	(235,452)
Other operating expenses	(18,695)	(22,934)	(66,531)	(48,619)	(156,779)
	(75,380)	(114,464)	(217,099)	(200,773)	(607,716)
Operating (loss) profit bef. depr. (EBITDA)	(18,052)	(36,940)	40,425	(8,236)	(22,803)
Depreciation, impairment	(28,158)	(25,292)	(32,246)	(27,440)	(113,136)
Operating (loss) profit (EBIT)	(46,210)	(62,232)	8,179	(35,676)	(135,939)
Net finance	7,512	(4,519)	14,229	(16,577)	645
Gain on sale of associate/subsidiary	0	0	4,653	4,430	9,083
Share of loss of associates	(1,464)	(1,181)	(1,144)	(59)	(3,848)
(Loss) profit before income tax (EBT)	(40,162)	(67,932)	25,917	(47,882)	(130,059)
Income tax	10,062	12,993	(1,615)	3,823	25,263
(Loss) profit	(30,100)	(54,939)	24,302	(44,059)	(104,796)
Other comprehensive profit (loss)	6,393	9,663	(4,683)	1,998	13,371
Total comprehensive (loss) income	(23,707)	(45,276)	19,619	(42,061)	(91,425)
Net cash from (used in) operating activities	(45,294)	65,025	25,193	5,688	50,612
Net cash (used in) from investing activities	(10,951)	44,855	(26,714)	(2,560)	4,630
Net cash from financing activities	(7,879)	(8,264)	64,291	(15,334)	32,814

Consolidated Financial Statements of Icelandair Group hf. 2021 74 Amounts are in USD thousand

Alternative performance measures (APMs)

Traffic

APM	Definitions
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 availble 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 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
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 sturcture

APM	Definitions
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 reversable 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

APM	Definitions
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

Alternative performance measures (APMs), contd.:

Traffic	2021 YTD	2020 YTD
ASK (´000)	5,963,027	3,190,603
RASK (USD cent)	6.7	7.5
CASK (USD cent)	9.2	15.9
RPK (´000)	3,894,555	2,144,126
PAX	1,461,446	890,905
OTP	84.0%	85.0%
Passenger flights	7,661	4,730
LF	65.3%	67.2%
BH	13,492	14,180
FTK (´000)	142,713	114,956
Passenger mix		
To	687,113	446,054
From	207,841	156,604
Via	341,071	161,981
Within	225,421	126,266

Capital structure	2021 31.12	2020 31.12
Total cash and marketable securities (USD '000)	262,965	159,370
Liquidity (USD ´000)	434,965	331,370
Liquidity (USD ´000) without government guaranteed credit facility	314,965	211,370
Net interest-bearing debt (USD ´000)	(5,179)	104,218
Net lease liabilites (USD ´000)	238,137	133,894
Current ratio	0.83	0.70
Equity ratio	0.19	0.23
Equity ratio without warrants	0.20	0.25
Intrinsic value of share capital	0.82	1.09

Other	2021 YTD	2020 YTD
Effective fuel price (USD pr. Metric tonn)	727	892
CAPEX, gross	184,077	49,159
CAPEX, net	(12,959)	23,433
FTE	2,087	2,621

+ Icelandairgroup.is