Icelandair Group hf.

Condensed Consolidated Interim Financial Statements
1 January - 30 September 2019

Icelandair Group hf. | Reykjavíkurflugvöllur | 101 Reykjavík Iceland | Reg. no. 631205-1780

Contents

Endorsement and Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 30 September 2019 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements (IAS 34). The interim financial statements comprise the consolidated interim financial statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The condensed consolidated Interim financial statements are stated in thousands of USD. The condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent auditors.

For the period from 1 January to 30 September 2019, loss amounted to USD 27.9 million. Total comprehensive loss for the period was USD 16.4 million. At the end of the period equity amounted to USD 500.9 million, including share capital in the amount of USD 44.2 million. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity.

The Group had expected to have nine Boeing 737 MAX in its fleet in 2019 which accounts for about 25% of Icelandair‘s fleet and 27% of its available seats. On 12 March 2019, the Boeing 737 MAX aircraft were suspended which has caused adverse effects in Icelandair‘s operations. In the third quarter, a partial compensation agreement was reached with Boeing in connection with the Group's loss resulting from the suspension. This was recognized partially as increased passenger revenue and partially as decreased aircraft lease expenses in aviation expenses. In the fourth quarter, another agreement was made with Boeing regarding the second partital compensation due to the MAX suspension. Details on these agreements with Boeing are confidential. The estimated net EBIT impact of the MAX suspension is still significant. The Group is in ongoing discussions with Boeing regarding compensation for the financial loss resulting from the suspension.

Statement by the Board of Directors and the CEO

According to our best knowledge it is our opinion that the condensed consolidated interim financial statements give a true and fair view of the financial performance of the Group for the nine month period ended 30 September 2019, its assets, liabilities and consolidated financial position as at 30 September 2019 and its consolidated cash flows for the period then ended.

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

The Board of Directors and the CEO have today discussed the condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 30 September 2019 and confirm them by means of their signatures.

Reykjavík, 31 October 2019

Board of Directors:

Úlfar Steindórsson, Chairman of the Board
Ómar Benediktsson
Guðmundur Hafsteinsson
Heiðrún Jónsdóttir
Svafa Grönfeldt

CEO:

Bogi Nils Bogason

Consolidated Statement of Comprehensive Income for the period from 1 January to 30 September 2019

	Notes	2019 Q3	2018 Q3	2019 YTD	2018 YTD
Operating income					
Transport revenue	7	422,640	406,491	914,478	874,343
Aircraft and aircrew lease		23,464	29,462	67,781	92,430
Other operating revenue	7	87,839	109,240	203,053	244,945
		533,943	545,193	1,185,312	1,211,718
Operating expenses					
Salaries and other personnel expenses		119,818	130,813	366,848	388,927
Aviation expenses		186,825	176,271	438,122	419,438
Other operating expenses		94,658	123,116	237,129	291,878
	8	401,301	430,200	1,042,099	1,100,243
Operating profit before depreciation and amortisation / EBITDA		132,642	114,993	143,213	111,475
Depreciation and amortisation		(51,574)	(36,698)	(145,828)	(99,191)
Operating profit (loss) before net finance costs / EBIT		81,068	78,295	(2,615)	12,284
Finance income		3,538	4,035	5,030	2,391
Finance costs		(7,688)	(5,610)	(27,456)	(14,533)
Net finance costs	9	(4,150)	(1,575)	(22,426)	(12,142)
Share of (loss) profit of associates, net of tax	17	(450)	213	(7,465)	1,772
Profit (loss) before tax / EBT		76,468	76,933	(32,506)	1,914
Income tax		(15,008)	(14,904)	4,587	(141)
Profit (loss) for the period		61,460	62,029	(27,919)	1,773
Other comprehensive income (loss):					
Foreign currency translation differences of foreign operations		665	(2,725)	(1,853)	(8,289)
Net profit (loss) on hedge of investment, net of tax		453	(4,514)	(4,799)	(4,514)
Effective portion of changes in fair value of cash flow hedge, net of tax		7,428	(9,090)	18,129	4,668
Other comprehensive income (loss) for the period		8,546	(16,329)	11,477	(8,135)
Total comprehensive income (loss) for the period		70,006	45,700	(16,442)	(6,362)
Profit (loss) attributable to:					
Owners of the Company		61,530	61,887	(25,700)	1,607
Non-controlling interest	17	(70)	142	(2,219)	166
Profit (loss) for the period		61,460	62,029	(27,919)	1,773
Tc 19.					
Owners of the Company		69,914	45,575	(14,679)	(6,480)
Non-controlling interest		92	125	(1,763)	118
Total comprehensive income (loss) for the period		70,006	45,700	(16,442)	(6,362)
Earnings per share:					
Basic earnings per share in US cent per share		1.19	1.29	(0.54)	0.04
Diluted earnings per share in US cent per share		1.19	1.29	(0.54)	0.04

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

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Consolidated Statement of Financial Position
as at 30 September 2019

	Notes	30.9.2019	31.12.2018
Assets			
Operating assets	10	645,312	673,420
Right-of-use assets	4	145,486	0
Intangible assets and goodwill		178,446	177,568
Investments in associates		25,042	26,134
Deferred cost		0	91
Receivables and deposits		36,219	17,365
Non-current assets		1,030,505	894,578
Inventories		28,599	25,951
Derivatives used for hedging		2,183	666
Trade and other receivables		167,283	118,298
Assets classified as held for sale	6	279,311	125,169
Cash and cash equivalents		171,243	299,460
Current assets		648,619	569,544
Total assets		1,679,124	1,464,122
Equity			
Share capital		44,199	39,053
Share premium		174,299	133,513
Reserves	11	33,615	26,262
Retained earnings		249,002	271,034
Equity attributable to equity holders of the Company		501,115	469,862
Non-controlling interest		(246)	1,517
Total equity		500,869	471,379
Liabilities			
Loans and borrowings	12	193,727	147,513
Lease liabilities	4	143,164	0
Payables		25,502	14,554
Deferred tax liabilities		31,961	32,868
Non-current liabilities		394,354	194,935
Loans and borrowings	12	75,171	268,288
Lease liabilities	4	23,985	0
Derivatives used for hedging		15,194	39,660
Liabilities classified as held for sale	6	214,130	52,244
Trade and other payables		253,367	222,766
Deferred income		202,054	214,850
Current liabilities		783,901	797,808
Total liabilities		1,178,255	992,743
Total equity and liabilities		1,679,124	1,464,122

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

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Consolidated Statement of Changes in Equity for the period from 1 January to 30 September 2019

	Attributable to equity holders of the Company						
1 January to 30 September 2018	**Share capital**	**Share premium**	**Reserves**	**Retained earnings**	**Total**	**Non-con-trolling interest**	**Total equity**
Equity 1 January 2018	39,532	140,519	127,407	282,739	590,197	1,338	591,535
Impact of IFRS15 implementation				5,010	5,010		5,010
Restated Equity 1.1.2018	39,532	140,519	127,407	287,749	595,207	1,338	596,545
Purchase of treasury shares	(479)	(7,006)			(7,485)		(7,485)
Total comprehensive loss			(8,087)	1,607	(6,480)	118	(6,362)
Effects of profit or loss and dividend from subsidiaries			(26,236)	26,236			
Dividend (0.15 US cent per share)				(7,254)	(7,254)		(7,254)
Equity 30 September 2018	39,053	133,513	93,084	308,338	573,988	1,456	575,444
1 January to 30 September 2019							
Equity 1 January 2019	39,053	133,513	26,262	271,034	469,862	1,517	471,379
Total comprehensive loss			11,021	(25,700)	(14,679)	(1,763)	(16,442)
Share issued	5,146	40,786			45,932		45,932
Effects of profit or loss and dividend from subsidiaries			(3,668)	3,668			
Equity 30 September 2019	44,199	174,299	33,615	249,002	501,115	(246)	500,869

Information on changes in reserves are provided in note 11.

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

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Consolidated Statement of Cash Flows for the nine months ended 30 September 2019

	Notes	2019 Q3	2018 Q3	2019 YTD	2018 YTD
Cash flows from operating activities:					
Profit (loss) for the period		61,460	62,029	(27,919)	1,773
Adjustments for:					
Depreciation and amortisation		51,574	36,698	145,828	99,191
Expensed deferred cost		0	2,593	0	7,516
Net finance costs		4,150	1,575	22,426	12,142
Gain on the sale of operating assets		(65)	(25)	(2,389)	(3,235)
Share of loss (profit) of associates		450	(213)	7,465	(1,772)
Income tax		15,008	14,904	(4,587)	141
		132,577	117,561	140,824	115,756
Changes in:					
Inventories, decreace (increase)		569	(405)	(2,981)	(4,102)
Trade and other receivables, decrease (increase)		1,904	32,575	(50,307)	(44,309)
Trade and other payables, (decrease) increase		(15,216)	(21,888)	43,867	34,717
Deferred income, (decrease)		(142,737)	(171,074)	(12,185)	(3,230)
Cash used in operating activities		(155,480)	(160,792)	(21,606)	(16,924)
Interest received		976	189	1,830	1,030
Interest paid		(6,692)	(5,044)	(28,214)	(14,087)
Income taxes paid		0	(2,549)	0	(9,233)
Net cash (used in) from operating activities		(28,619)	(50,635)	92,834	76,542
Cash flows used in investing activities:					
Acquisition of operating assets		(16,676)	(53,973)	(219,179)	(232,872)
Proceeds from the sale of operating assets		3,049	25	154,085	52,833
Non-current paybles, change		(2,939)	0	(17,280)	0
Acquisition of intangible assets		(3,049)	(560)	(4,637)	(2,078)
Capitalised deferred cost		0	0	0	(1,397)
Non-current receivables, change		1,926	(21,767)	(6,360)	(73,205)
Cash attributable to assets held for sale		8,461	(5,280)	(7,254)	(5,280)
Short term investments, change		0	5,015	0	(4,561)
Net cash used in investing activities		(9,228)	(76,540)	(100,625)	(266,560)
Cash flows from financing activities:					
Purchase of treasury shares		0	0	0	(7,483)
Dividend paid		0	0	0	(7,256)
Share issued		0	0	45,932	0
Proceeds from non-current borrowing		0	3,122	79,799	102,917
Repayment of non-current borrowings		(5,828)	(12,400)	(226,221)	(16,675)
Repayment of lease liabilities	4	(6,863)	0	(22,689)	0
Proceeds from short term borrowings		47,080	72,254	4,198	74,687
Net cash from (used in) financing activities		34,389	62,976	(118,981)	146,190
Decrease in cash and cash equivalents		(3,458)	(64,199)	(126,772)	(43,828)
Effect of exchange rate fluctuations on cash held		(250)	(1,476)	(1,445)	(1,980)
Cash and cash equivalents at beginning of the period		174,951	241,058	299,460	221,191
Cash and cash equivalents at end of the period		171,243	175,383	171,243	175,383
Investing and financing activities without cash flow effect:					
Acquisition of right-of-use assets		(1,509)	0	(109,725)	0
New or renewed leases		2,280	0	110,496	0
Acquisition of operating assets		0	(11,770)	0	(64,276)
Non-current receivables		(771)	0	(771)	52,506
Trade and other payables		0	11,770	0	11,770

The notes on pages 8 to 19 are an integral part of these interim consolidation financial statements.

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Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The condensed consolidated interim financial statements of the Company as at and for the nine months ended 30 September 2019 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group's interests in associates. The Group primarily operates in the airline and tourism sectors. The Company is listed on Nasdaq Iceland.

The Group's consolidated financial statements as at and for the year ended 31 December 2018 are available upon request from the Company's registered office at Reykjavíkurflugvöllur in Reykjavík, Iceland or at its website address, www.icelandairgroup.is and at The Icelandic Stock Exchange website, www.nasdaqomx.com.

2. Basis of accounting

The condensed consolidated interim financial statements for the nine months ended 30 September 2019 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. These interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting.* Interim Consolidated Financial Statements have been prepared under the historical cost convention, except for financial assets and liabilities, which are valued at fair value through other Comprehensive Income. They do not include all the information requred for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2018.

The accounting policies and methods of computation applied in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2018 except for the changes stated in note 4.

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

These interim financial statements were approved for issue by the Board of Directors on 31 October 2019.

3. Use of judgements and estimates

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2018.

Notes, continued

4. Changes in accounting policies

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

a. Adoption of new and revised Standards

On 1 January 2019, the Group applied IFRS 16 Leases. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease requires and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Group's consolidated interim financial statements is described below.

The Group has applied IFRS 16 using the modified retrospective approach, with no restatement of comparative information. The Group has elected to apply the practical expedient to grandfather the definition of a lease on transition, and thereby applying IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

With the application of IFRS 16, the nature of expenses related to operating leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease. As a result, the application of IFRS 16 led to a increase in loss of the period ended 30 September 2019 by USD 6.5 million. The effects on line items in the Consolidated Statement of Comprehensive Income are as follows:

	Amounts without adoption of IFRS 16	Adjustment IFRS 16	2019 1.1.-30.9. As reported
Operating income			
Transport revenue	914,478	0	914,478
Aircraft and aircrew lease	73,186	(5,405)	67,781
Other operating revenue	207,477	(4,424)	203,053
Total operating income	1,195,141	(9,829)	1,185,312
Operating expenses			
Salaries and other personnel expenses	366,848	0	366,848
Aviation expenses	457,845	(19,723)	438,122
Other operating expenses	250,510	(13,381)	237,129
Total operating expenses	1,075,203	(33,104)	1,042,099
Operating profit before depr. and amortisation / EBITDA	119,938	23,275	143,213
Depreciation and amortisation	(124,188)	(21,640)	(145,828)
Operating loss before net finance costs / EBIT	(4,250)	1,635	(2,615)
Net finance costs	(12,619)	(9,807)	(22,426)
Share of loss of associates, net of tax	(7,465)	0	(7,465)
Loss before income tax / EBT	(24,334)	(8,172)	(32,506)
Income tax	2,953	1,634	4,587
Loss for the period	(21,381)	(6,538)	(27,919)
Equity ratio	0.37		0.30

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Notes, continued

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b. Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which the Group is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The lease payments included in the measurement of the lease liability comprise fixed payments less any incentives, variable lease payments that depend on an index or rate, expected residual guarantees and the excercise price of purchase options if the Group expects to excercise the option.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group remeasures the lease liability if the lease term has changed, when lease payments changes in an index or rate or when a lease contract is modified and the modification is not accounted for as a seperate lease.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

c. Aircraft maintenance of leased aircraft

Accounting of the maintenance on leased aircraft, the Group recognizes return obligation liabilities and provisions in respect of the required maintenance obligations within the framework of the lease of aircraft to lessors. The constitution of these return obligation liabilities and provisions depends on the type of maintenance obligations to fulfill before returning these aircraft to the lessors: overhaul and restoration work as well as airframe and engine potential reconstitution. These provisions also consist of compensation paid to lessors in respect of wear of the limited life parts in the engines.

- Overhaul and restoration works (not depending on aircraft utilization)

Costs resulting from work required to be performed just before returning aircraft to the lessors, such as painting of the shell or aircraft overhaul (“C Check”) are recognized as provisions as of the inception of the contract. The counterpart of these provisions is booked as a complement through the initial book value of the aircraft right-of-use assets. This complement to the right-of-use asset is depreciated over the lease term.

- Airframe and engine potentials reconstitution (depending on the utilization of the aircraft and its engines)

The airframe and the engine potentials are recognized as a complement to the right-of-use assets since they are considered as full-fledged components, as distinct from the physical components which are the engine and the airframe. These components are the counterparts of the return obligation liability, recognized in its totality at the inception of the contract. When maintenance events aimed at reconstituting these potentials take place, the costs incurred are capitalized. These potentials are depreciated over the period of use of the underlying assets (flight hours for the engine potentials component or straight-line for the airframe potentials component).

- Compensation related to limited life parts (engine components)

As the component approach is not applicable for limited life parts, costs related to the lessor’s compensation are booked progressively as provisions as they are used during the lease term and based upon contractual data (e.g. cost of a limited life part).

Provision for maintenance of leased engines has been classified as lease liability under IFRS 16 during the year. Reclassification has been made in the third quarter and provision for maintenance of leased engines is classified under IAS 37 as provision. Reclassification has been made in the balance sheet due to these classification changes. USD 26 million have been reclassified from lease liability to payables and USD 6 million from right-of-use-assets to receivables. Expenses are recognized through depreciation. During the first nine months of 2019 depreciation amounted to USD 17 million.

Notes, continued

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Right of use assets	Land & Real Estate	Aircraft	Other	Total
Recognised on initial application	198,106	69,690	1,068	268,864
Sublease agreements on inital application	(1,467)	(15,907)	(110)	(17,484)
Adjustments *	(24,241)	(15,184)	(89)	(39,514)
Adjusted balance	172,398	38,599	869	211,866
Adjustments for indexed leases	2,927	(2,116)	18	829
New or renewed leases	(685)	110,019	391	109,725
Depreciation	(9,636)	(11,559)	(445)	(21,640)
Reclassified to assets held for sale	(144,361)	0	(103)	(144,464)
Currency translation adjustment	(10,829)	0	(1)	(10,830)
Balance at 30 September 2019	9,814	134,943	729	145,486
Net expenses recognized prior to IFRS 16	12,569	10,204	501	23,274
Depreciation in accordance with IFRS 16	(9,635)	(11,559)	(445)	(21,639)
Interest expenses in accordance with IFRS 16	(5,220)	(4,543)	(44)	(9,807)
Effect on EBT due to IFRS 16	(2,286)	(5,898)	12	(8,172)

Lease receivables	Land & Real Estate	Aircraft	Other	Total
Long term receivables	1,768	8,384	0	10,152
Next year payment of lease receivabels	443	6,051	0	6,494
Reclassified to assets held for sale	(694)	0	0	(694)
Total lease receivables	1,517	14,435	0	15,952

Long term receivables are included in receivables and deposits within non-current assets, next year payment are included in trade and other receivables within current assets.

Lease liabilities	30.9.2019
Recognised on initial application	289,723
Adjustments *	(53,500)
Adjusted balance	236,223
Adjustments for indexed leases	862
New or renewed leases	110,496
Repayment of lease liabilities	(22,689)
Reclassified to liabilities held for sale	(147,280)
Next year payment of lease liabilities	(23,985)
Currency translation adjustment	(10,463)
Balance at 30 September 2019	143,164

Maturity analysis	30.9.2019
Repayments in 2019 (3 months)	6,081
Repayments in 2020	23,266
Repayments in 2021	21,616
Repayments in 2022	20,513
Repayments in 2023	20,365
Subsequent repayments	75,308
Total lease liabilities	167,149

* Adjustments include reclassification of engine provision from right-of-use asset to receivable and lease liability to payables and recalculation of lease agreements.

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Notes, continued

5. Operating segments

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

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

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

Passenger network

There are seven subsidiaries within the Passenger network segment. The largest one is Icelandair, the international passenger airline. Icelandair‘s route network is based on the Hub and Spoke concept between Europe and North America via Iceland, leveraging Iceland’s geographical position. This successful strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed Icelandair to constantly grow and expand its route network over the past years.

Other subsidaries are Air Iceland Connect, the domestic and regional carrier, Icelandair Shared Services, the group‘s shared service center, Feria, which operates under the name VITA as an outgoing tour operator, Iceeignir, a real estate company that holds the real estate of Icelandair Group, IceCap, a captive insurance company based in Guernsey and A320, a dormant.

From the beginning of the year 2019, Air Iceland Connect and Feria were restated from Aviation services (previously Avaiation investment) to Passenger network (previously International flight operations).

Aviation services

There is one subsidiary within the Aviation services segment, Loftleiðir Icelandic, which offers aircraft leasing and consulting services to international passenger airlines and tour operators.
In addition, Icelandair Cargo, a subsidiary of Icelandair ehf. is classified in this segment. Icelandair Cargo offers freight services by utilizing the belly capacity within aircraft of the Icelandair passenger network as well as with their own freighters.

Tourism services

There are two subsidiaries within the Tourism services segment, Icelandair Hotels and Iceland Travel. Icelandair Hotels offers quality hotels both in Reykjavík and around the countryside. Iceland Travel is the largest incoming tour operator in Iceland.

Notes, continued

5. continued

Reportable segments for the nine months ended 30 September 2019

	Passenger network	Aviation services	Tourism services	Total
External revenue	924,637	125,920	134,755	1,185,312
Inter-segment revenue	87,616	3,782	5,917	97,315
Segment revenue	1,012,253	129,702	140,672	1,282,627
Depreciation and amortisation	(113,358)	(19,708)	(12,762)	(145,828)
Segment EBIT	(39,052)	23,805	12,632	(2,615)
Finance income	3,558	506	72	4,136
Finance costs	(19,966)	(955)	(5,641)	(26,562)
Share of profit (loss) of equity accounted investees	132	(7,620)	23	(7,465)
Reportable segment (loss) profit before tax / EBT	(55,328)	15,736	7,086	(32,506)
Reportable segment assets	2,004,973	130,112	303,167	2,438,252

Reportable segments for the nine months ended 30 September 2018 (restated)

	Passenger network	Aviation services	Tourism services	Total
External revenue	892,707	143,284	175,727	1,211,718
Inter-segment revenue	72,973	4,546	9,221	86,740
Segment revenue	965,680	147,830	184,948	1,298,458
Depreciation and amortisation	(91,410)	(2,749)	(5,032)	(99,191)
Segment EBIT	(14,042)	17,013	9,313	12,284
Finance income	1,975	429	661	3,065
Finance costs	(13,212)	(768)	(1,227)	(15,207)
Share of profit of equity accounted investees	1,671	0	101	1,772
Reportable segment (loss) profit before tax / EBT	(23,608)	16,674	8,848	1,914
Reportable segment assets	2,107,230	83,865	91,311	2,282,406

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

	2019 YTD	2018 YTD
Revenue		
Total revenue for reportable segments	1,282,627	1,298,458
Elimination of inter-segment revenue	(97,315)	(86,740)
Consolidated revenue	1,185,312	1,211,718
Profit or loss		
Consolidated (loss) profit before tax	(32,506)	1,914

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Notes, continued

5. continued

Other material items

	Reportable segment totals	Adjust-ments	Consoli-dated totals
1.1.-30.9. 2019			
Segment EBIT	(2,615)	0	(2,615)
Finance income	4,136	894	5,030
Finance costs	(26,562)	(894)	(27,456)
Share of loss of associates	(7,465)	0	(7,465)
Capital expenditure	223,816	0	223,816
1.1.-30.9. 2018			
Segment EBIT	12,284	0	12,284
Finance income	3,065	(674)	2,391
Finance costs	(15,207)	674	(14,533)
Share of profit of associates	1,772	0	1,772
Capital expenditure	236,347	0	236,347

Geographic information

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

	2019 YTD	2018 YTD
Revenues		
North America	42%	37%
Iceland	20%	27%
West Continental Europe	16%	13%
Scandinavia	8%	6%
United Kingdom	4%	13%
Other	10%	4%
Total revenues	100%	100%

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Notes, continued

6. Assets held for sale

The Company plans to sell its subsidiaries classified in Tourism services segment following a strategic decision to place greater focus on the Group's key competencies, i.e. the airline industry. See further in notes 5 and 16.

As these operations are deemed immaterial on the consolidated statement of comprehensive income, it is included and not shown separately as discontinued operations. In the consolidated statement of financial position, assets and liabilities of this segment are stated as held for sale. Comparative amounts have not been re presented. The impact on the consolidated financial statements as a whole is presented below.

a. Impacts on consolidated financial statements

(i) Comprehensive profit for the Tourism services

	2019 Q3	2018 Q3 Restated	2019 YTD	2018 YTD Restated
Revenue	68,130	92,423	144,766	188,902
Elimination of inter-segment revenue	(4,364)	(6,288)	(9,732)	(13,175)
External revenue	63,766	86,135	135,034	175,727
Expenses	(57,330)	(76,698)	(142,877)	(179,170)
Elimination of expenses of inter-segment sales	4,364	6,288	9,732	13,175
External expenses	(52,966)	(70,410)	(133,145)	(165,995)
Profit from operating activities	10,800	15,725	1,889	9,732
Income tax	(2,174)	(3,125)	(440)	(1,929)
Profit from Tourism services, net of tax	8,626	12,600	1,449	7,803
Basic earnings per share in US cent per share	0.20	0.29	0.03	0.18
Diluted earnings per share in US cent per share	0.20	0.29	0.03	0.18

(ii) Cash flows from (used in) Tourism services

	2019 Q3	2018 Q3 Restated	2019 YTD	2018 YTD Restated
Net cash to operating activities	4,659	8,382	17,796	15,028
Net cash used in investing activities	(5,539)	(10,977)	(8,960)	(22,351)
Net cash (used in) from financing activities	(7,162)	2,214	(12,246)	16,955
Net cash flows for the period	(8,042)	(381)	(3,410)	9,632

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

The assets and liabilities of the Tourism services segment are presented as held for sale in the consolidated statements of financial position at end of September 2019 following a strategic decision by the Board. Icelandair Hotels was classified as an asset held for sale at year end 2018. Both Icelandair Hotels and Iceland Travel were classified as held for sale as at 30 September 2019. The carrying amounts of the major classes of assets and liabilities were as follows:

	30.9.2019	31.12.2018
Operating assets	96,279	102,491
Right-of-use assets	144,464	0
Intangible assets and goodwill	5,573	5,457
Investments in associates	1,013	1,055
Inventories	807	755
Trade and other receivables	23,921	11,377
Cash and cash equivalents	7,254	4,034
Deferred tax liabilities	(3,767)	(3,191)
Loans and borrowings	(33,509)	(35,644)
Lease liabilities	(147,280)	0
Trade and other payables	(21,464)	(8,683)
Deferred income	(8,110)	(4,726)
Net assets and liabilities	65,181	72,925

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Notes, continued

6. continued

On 13 July 2019, the Company signed a share purchase agreement (the “Agreement”) with Berjaya Property Ireland Limited (“Berjaya”), a subsidiary of Berjaya Land Berhad, whereby Berjaya acquires a majority share in Icelandair Hotels and related real estate (the “Hotels”) at year-end 2019.

According to the Agreement Berjaya will acquire a 75% equity share in Icelandair Hotels, subject to the Company holding a 25% equity share for a minimum of 3 years. Alongside the signing of the Agreement, the Company and Berjaya, have entered into a put and call option agreement regarding the remaining 25% equity share.

The enterprise value of the Hotels amounts to USD 136 million. The final purchase price of Berjaya‘s 75% share will be determined by the amount of net working capital and net interest-bearing debt at the date of delivery.

The purchase price is payable in cash and will be paid to the Company in tranches. The completion of the transaction and final payment will take place at year-end 2019, upon the delivery of the shares. The Agreement is subject to various conditions, such as the necessary approvals pertaining to requirements under Act no. 19/1966 and the refinancing of the Hotels. Berjaya‘s due diligence on the Hotels has already been completed.

At year-end 2019 the Company will hold the Hotels as a 25% minority stake and account them as a associate in the Company's financial statement.
The Company's shares in Lindarvatn ehf., the company that owns the property housing the upcoming Iceland Parliament hotel, are not part of the sold entity.

7. Operating income

Transport revenue is specified as follows:

	2019 Q3	2018 Q3 Restated	2019 YTD	2018 YTD Restated
Passengers	377,005	363,123	793,736	764,413
Passenger ancillary revenues	31,116	29,076	76,258	66,381
Cargo and mail	14,519	14,292	44,484	43,549
Total transport revenue	422,640	406,491	914,478	874,343

Other operating revenue is specified as follows:

	2019 Q3	2018 Q3 Restated	2019 YTD	2018 YTD Restated
Sale in hotels and airports	32,726	37,552	75,138	82,235
Revenue from tourism	41,024	57,661	87,457	117,366
Aircraft and cargo handling services	7,249	5,742	19,311	18,435
Maintenance revenue	1,431	11	3,434	1,641
Gain on sale of operating assets	65	25	2,376	3,235
Other operating revenue	5,344	8,249	15,337	22,033
Total other operating revenue	87,839	109,240	203,053	244,945

8. Operating expenses

Salaries and other personnel expenses are specified as follows:

	2019 Q3	2018 Q3 Restated	2019 YTD	2018 YTD Restated
Salaries	86,543	95,290	254,156	265,227
Salary-related expenses	15,568	18,182	65,066	70,226
Other personnel expenses	17,707	17,341	47,626	53,474
Total salaries and personnel expenses	119,818	130,813	366,848	388,927

Aviation expenses are specified as follows:

	2019 Q3	2018 Q3 Restated	2019 YTD	2018 YTD Restated
Aircraft fuel	113,406	97,740	257,093	224,627
Aircraft lease	9,603	10,179	30,403	27,353
Aircraft handling, landing and navigation	47,924	46,388	111,968	107,183
Aircraft maintenance expenses	15,892	21,964	38,658	60,275
Total aviation expenses	186,825	176,271	438,122	419,438

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Notes, continued

8. continued

	2019 Q3	2018 Q3 Restated	2019 YTD	2018 YTD Restated
Other operating expenses are specified as follows:				
Operating cost of real estate and fixtures	4,406	10,827	13,070	28,907
Communication	5,593	8,789	19,456	22,800
Advertising	4,368	7,112	16,671	23,195
Booking fees and commission expenses	25,692	22,320	58,198	49,238
Cost of goods sold	4,178	4,856	10,727	11,800
Customer services	18,702	20,878	47,586	50,228
Tourism expenses	21,265	38,711	43,581	76,905
Allowance for bad debt	1,408	457	2,431	439
Other operating expenses	9,046	9,166	25,409	28,366
Total other operating expenses	94,658	123,116	237,129	291,878

9. Finance income and finance costs

	2019 Q3	2018 Q3	2019 YTD	2018 YTD
Finance income and finance costs are specified as follows:				
Interest income on bank deposits	1,138	330	1,887	1,099
Interest income on lease receivables	227	0	680	0
Other interest income	(76)	(101)	(402)	494
Net foreign exchange gain	2,249	3,806	2,865	798
Finance income total	3,538	4,035	5,030	2,391
Interest expenses on loans and borrowings	2,811	5,407	16,498	13,832
Interest expenses on lease liabilities	4,810	0	10,487	0
Other interest expenses	67	203	471	701
Finance costs total	7,688	5,610	27,456	14,533
Net finance costs	(4,150)	(1,575)	(22,426)	(12,142)

10. Operating assets

Acquisition of operating assets in the first nine months of 2019 amounted to USD 219 million. Thereof, there were two Boeing 737 MAX8 aircraft, one Boeing 737 MAX9 aircraft, overhaul of own engines and aircraft spare parts in the amount of USD 201 million.

11. Equity

Reserves are specified as follows:	Hedging reserve	Translation reserve	Other reserves	Total reserves
Reserves 1.1.2018	13,914	42,240	71,253	127,407
Changes during the period	4,668	(12,755)	(26,236)	(34,323)
Reserves 30.9.2018	18,582	29,485	45,017	93,084
Reserves 1.1.2019	(26,434)	35,570	17,126	26,262
Changes during the period	18,129	(2,309)	(8,467)	7,353
Reserves 30.9.2019	(8,305)	33,261	8,659	33,615

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Notes, continued

12. Loans and borrowings

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

	30.9.2019	31.12.2018
Non-current loans and borrowings are specified as follows:		
Secured bank loans	256,823	190,233
Unsecured loans	12,075	225,568
	268,898	415,801
Current maturities and short term loans	(75,171)	(268,288)
Total non-current loans and borrowings	193,727	147,513

Terms and debt repayment schedule:	Currency	Nominal interest rates	Year of maturity	Total remaining balance 30.9.2019	31.12.2018
Secured bank loans	USD	4.4%	2022-2028	121,271	49,035
Secured bank loans	EUR	1.2%	2026-2028	64,914	72,983
Secured bank loans	ISK	5.1%	2023-2036	35,633	38,193
Unsecured bond issue	USD			0	212,708
Secured bank loans - short term	USD	5.5%	2019	35,005	30,022
Unsecured bank loans - short term	ISK	6.9%	2019	12,075	12,860
Total interest-bearing liabilities				268,898	415,801

As at the end of 30 September 2019, the Company had undrawn credit lines in the amount of USD 60 million denominated in USD and ISK.

13. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	30.9.2019	31.12.2018
Repayments in 2019 (3 months)(2018: 12 months)	57,214	268,287
Repayments in 2020	28,148	12,809
Repayments in 2021	28,254	12,919
Repayments in 2022	32,004	16,674
Repayments in 2023	41,000	26,494
Subsequent repayments	82,278	78,618
Total loans and borrowings	268,898	415,801

14. Financial instruments and fair values

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

	30.9.2019		31.12.2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Unsecured bond issue	(12,075)	(12,075)	(225,568)	(233,918)
Secured loans	(256,823)	(263,498)	(190,233)	(185,311)
Total	(268,898)	(275,573)	(415,801)	(419,229)

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Notes, continued

15. Capital commitments

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

In Q1 2018, Icelandair took delivery of the first three Boeing 737 MAX8 aircraft from Boeing. Two aircraft were financed with Japanese operating lease with a call option (JOLCO) and one aircraft was financed through sale leaseback agreement.

In Q1 2019, Icelandair took delivery of two Boeing 737 MAX8 and one Boeing 737 MAX9. They were all financed through sale leaseback agreements.

The delivery plan for future aircraft is as follows:	2019	2020	2021
Boeing 737 MAX8	1	2	1
Boeing 737 MAX9	2	3	1
Total	3	5	2

In Q2 2019, Icelandair was expected to take delivery of the other three Boeing 737 MAX aircraft, i.e. one Boeing 737 MAX8 and two Boeing 737 MAX9. However, due to the suspension of the Boeing 737 MAX which was initiated in March 2019 and still persists, the delivery dates of these aircraft and all deliveries of future aircraft is uncertain at this point in time. Icelandair has already secured financing of the three aircraft that are still to be delivered in 2019 and one of the aircraft planned to be delivered in 2020 through sale leaseback agreements.

16. Group entities

The Company held ten subsidiaries at the end of September 2019.	Share
Passenger network:	
A320 ehf.	100%
Flugfélag Íslands ehf. (Air Iceland Connect)	100%
FERIA ehf. (VITA)	100%
Fjárvakur - Icelandair Shared Services ehf. (Icelandair Shared Services)	100%
IceCap Insurance PCC Ltd.	100%
Iceeignir ehf.	100%
Icelandair ehf.	100%
Aviation services *:	
Loftleiðir - Icelandic ehf.	100%
Tourism services:	
Iceland Travel ehf.	100%
Flugleiðahótel ehf. (Icelandair Hotels)	100%

* Icelandair Cargo ehf. is a subsidiary of Icelandair ehf. and is therefore not listed herein but is classified under Aviation services.

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

17. Share in associates

On 1 March, the Group invested in 36% stake in Cabo Verde Airlines ("CVA") which is classified as an associate. The Group views this investment as a long term development project and believes that there are opportunities to build CVA up as a strong hub and spoke airline with Cape Verde as a connecting hub between continents and at the same time develop Cape Verde as tourist destination. According to the CVA's business plan it was expected that it would be loss making during the first two years after the Group's acquisition and would become profitable in 2021. The operating results of CVA for the first nine months of the year are in line with the business plan. The Group's share in the loss amounted to USD 5.3 million and is fully accounted for. As at the end of 30 September 2019, the Group had no material balance sheet exposure to CVA due to the investment.

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Notes, continued

18. Ratios

The Group's primary ratios are specified as follows:

	30.9.2019	31.12.2018
Current ratio	0.83	0.71
Equity ratio	0.30	0.32
Intrinsic value of share capital	11.33	12.06

19 Events after the reporting period

Today, on 31 October 2019, another agreement was made with Boeing regarding the second partial compensation due to the MAX suspension. Details on this agreement with Boeing are confidential. The estimated net EBIT impact of the MAX suspension is still significant. The Group is in ongoing discussions with Boeing regarding compensation for the financial loss resulting from the suspension.

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