Icelandair Group hf.

Consolidated Financial Statements for the year 2020

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

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Endorsement and Statement by the Board of Directors and the CEO

Icelandair Group hf. is an Icelandic aviation company with decades' long history of operating in the international airline and tourism sectors. In 2018, the Company resolved to concentrate 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 2020 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. All amounts are stated in thousands of USD.

Operations in the year 2020

According to the Consolidated Income Statement and other Comprehensive Income, loss for the year 2020 amounted to USD 376.2 million. Total comprehensive loss for the year was USD 408.8 million. Equity at year-end amounted to USD 232.8 million, including share capital in the amount of USD 213.0 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.

The year 2020 was heavily marked by the COVID-19 pandemic whose impact continues to be felt in all realms of society, not least in the aviation and travel industries. This is clearly illustrated by the over 80% reduction in international passenger numbers and ASK year-on-year. Despite the relatively swift development of a vaccine uncertainty in the Company's operating environment is expected to remain high in the short to medium term while vaccinations are being administered. In the longer term, it further remains unclear when global travel might resume its pre-COVID levels. Following some easing and tightening in the latter half of 2020, travel restrictions and/or strict border controls have been reinstated in nearly all of Scandinavia and continental Europe with a travel ban still in place to and from the US, one of the Group's most important geographical segments.

The Group's business plan and schedule have been revised, and continue to be reiterated, in line with developments in each market. The current assumption is that a modest ramp-up will commence in Q2 but that it will take until 2024 for demand to reach pre-COVID levels. Management assumes that capacity will rationalize in all key markets as airlines will stress preservation of cash and liquidity. Post recent crisis in the 21st century, Icelandair has enjoyed solid operational performance in the years to follow. Iceland's attraction as a clean, safe and sparsely populated destination is also assumed to be strong in the post-COVID world.

To respond to the situation brought on by the pandemic, the Group took immediate and extensive measures to get through an extended period of minimum operations. These included severely cutting its flight schedule, drastically reducing the number of employees and changes to its organizational structure. At the same time, the Group acted swiftly and seized opportunities arising from the circumstances, such as in the cargo and leasing operations. The Group's overall strategy during the low production period aims at securing the continuity of necessary core operations and safeguarding the flexibility needed for swift ramp-up when markets recover.

The Group underwent financial restructuring which was completed in September with the execution of a successful share offering whereby the Company raised ISK 23,000 million (approx. USD 169 million) in new equity. The offering was a key component in effectuating a series of deferral agreements that the Group had previously reached with various stakeholders that include lenders, lessors, acquirers, the Boeing Company and other vendors. A successful share offering was a condition for the Company's access to a government guaranteed credit facility that was approved by the Icelandic Parliament on 4 September 2020. The credit facility, arranged by two local commercial banks, is in the amount of USD 120 million, 90% of which is guaranteed by the government.

Additionally, investors that were allotted new shares in the offering were also issued warrants to buy additional shares in the Company at certain dates in the future. The warrants, amounting to 25% of the nominal value of new shares sold in the offering, were issued free of charge. If exercised in full, the warrants can raise up to approx. USD 42 million in additional equity for the Company over their lifetime which expires in the latter half of 2022. The warrants have been listed on the Nasdaq Iceland Main Market and can be traded freely independent of the Company's shares until their respective exercise periods.

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

Operations in the year 2020, contd.:

Agreements with lenders included renegotiated financial covenants. According to the restructured terms the equity ratio will be the Group's primary financial covenant in the 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 financial covenants will resume to take effect.

In addition to its market based financial restructuring efforts the Group has received various government offered COVID-19 relief options for companies. Most meaningful were the unilateral reduction of the employment ratio of hundreds of employees which made them eligible for special par-time unemployment benefits, funded by the government, to make up for the drop in salary income, and the lay-off of over 2,000 valued employees that entitled the Group to subsidies of salary costs during those employees' contractual notice periods.

At the outset of the 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 in cases where these were not commercially viable. The agreements have since been extended several times and are still in effect with regards to flights to the East Coast of the USA.

After being grounded for over 20 months the Boeing 737 MAX aircraft was re-certified by the FAA in November and by EASA in January 2021. The Company assumes to reintroduce the aircraft into its fleet in Q1 2021 following all necessary updates and inspections. As part of its restructuring the Group had prior to re-certification reached an agreement with Boeing regarding additional compensation for financial losses resulting from the grounding of the MAX in early 2019. In addition to financial compensation the agreement includes permanent cancellation of four out of the ten MAX aircraft that the Group is yet to take delivery of. The six aircraft still on order are expected to be delivered during the period Q2 2021 to Q1 2022. Once full delivery is completed the Group will have twelve MAX aircraft in its fleet.

The Company finalized the sale of a 75% equity share in Icelandair Hotels to Berjaya Property Ireland Limited in Q2 2020. The Company will retain its 25% share in the hotel company for a period of at least three years. The total cash consideration for the equity was USD 45.3 million.

The Board of Directors proposes no dividend payment to shareholders in 2021 for the year 2020.

Share capital and Articles of Association

The nominal value of the Company's issued share capital amounted to ISK 28.4 billion at year-end. The share capital consist of shares of ISK 1, 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's Board of Directors comprises five members, two women and three men. The gender ratio is thus in accordance with Icelandic laws requiring companies with over 50 employees to ensure that the Board has representation from both genders and that each gender comprises at least 40% of the Board Members when Board Members surpass three. The Board Members are elected at the Annual General Meeting each for a term of one year. Those persons willing to stand for election must give formal notice thereof to the Board of Directors and Icelandair Group’s Nomination Committee at least seven days before the Annual General Meeting.

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

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

Share capital and Articles of Association, contd.:

The number of shareholders at year-end 2020 was 13,508 an increase of 10,337 during the year. At year end 2020 the 10 largest shareholders were:

Name	Shares in ISK thousand	Shares in %
Gildi - lífeyrissjóður	1,803,761	6.34
Lífeyrissjóður starfsmanna ríkisins A-deild, B-deild og S-deild	1,500,000	5.27
Brú - Lífeyrissjóður starfsmanna sveitarfélaga	1,356,205	4.77
Stefnir - ÍS 15, ÍS 5 og Samval	1,388,591	4.88
Arion Banki hf.	912,637	3.21
Íslandsbanki hf.	784,869	2.76
Bóksal ehf.	662,514	2.33
Lífeyrissjóður verslunarmanna	642,361	2.26
Sólvöllur ehf.	554,704	1.95
Almenni lífeyrissjóðurinn	544,402	1.91
	10,150,045	35.69
Other shareholders	18,287,616	64.31
	28,437,661	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.

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 corporate responsibilities according to the ESG Reporting Guide – Environment, Society and Governance - issued by Nasdaq.

Material issues regarding the environment that were monitored during the year were climate impacts and other environmental impacts. Material issues regarding society that were reported were passenger safety and wellbeing as well as other impacts on society. Regarding governance, material issues that were reported included employee health and safety, gender diversity, responsible procurement, business ethics and anti-corruption.

The Company's policies and outcome of these matters are further discussed in the Non-financial Reporting that form an appendix to the Consolidated Financial Statements.

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

Statement by the Board of Directors and the CEO

The consolidated financial statements for the year ended 31 December 2020 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.

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 2020, its assets, liabilities and consolidated financial position as at 31 December 2020 and its consolidated cash flows for the year 2020.

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 2020 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, 8 February 2021.

Board of Directors:

CEO:

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 December 31, 2020, 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 December 31, 2020, 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 Auditors' Report continued:

Key audit matter	How our audit responded to the key audit matter
Going concern *Reference is made to note 2.c "Going Concern" and the Endorsement and the Statement of the Board of Directors and the CEO* In undertaking it's assessment of going concern for the Group, management has prepared and reviewed a forecast future performance and anticipated cash flows and liquidity position. In doing so management considered the financing available to the Group and associated debt covenants and cost saving actions that the Group has taken in responding to the Covid-19 pandemic. Due to the on-going Covid-19 pandemic which has led to heavy contraction in international passenger numbers, there is significantly more judgement applied in developing cash flow forecasts including an assumption of the period of restrictions in global travel. Going concern is therefore one of the key audit matters of our audit of the consolidated financial statements.	We used the service of our valuation specialists to evaluate whether the assumptions in management´s assessment of the Group´s ability to continue as a gong concern were realistic and achievable. In particular, we assessed the reasonableness of management´s budgets and evaluated whether cash flow forecasts and management´s assessment of liquidity position was appropriate. We assessed the risk of a breach of covenants in loan agreements. We assessed related disclosures to confirm that information regarding actions taken to strengthen the Group´s financial standing and liquidity, required by applicable accounting policies, were provided.

Key audit matter	How our audit responded to the key audit matter
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 computer 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 the revenue recognition. These procedures include reviewing the controls over the Group's systems which govern the passenger ticket sales, including access control and change management controls. We evaluated the design of non-automated controls to assess if they were likely to ensure the accuracy and timing of the revenue recognition of passenger income and tested operating effectiveness of selected controls. We analysed passenger revenue and used external and internal information to set expectations which were compared to recognized revenue. We used substantive testing including a reconciliation between systems, testing of selected journal entries posted to passenger revenue accounts and we tested the inclusion of passenger revenue transactions in the appropriate period by testing selected flights before and after the the reporting date.

Independent Auditors' Report continued:

Key audit matter	How our audit responded to the key audit matter
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.* 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 significance 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.	We used the service of our valuation specialists to assess 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 uncertenties 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.

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.

Independent Auditors' Report continued:

Responsibilities of the Board of Directors and the 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, 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.

Auditors' 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 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.

- 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.

Independent Auditors' Report continued:

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements contd.
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 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

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 statement by the Board of Directors and the 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 Auður Ósk Þórisdóttir.

Reykjavik, 8 February 2021.

KPMG ehf.

Consolidated Income Statement and other Comprehensive Income for the year 2020

	Notes	2020	2019 Restated *
Operating income			
Transport revenue	8	265,523	1,159,524
Aircraft and aircrew lease		64,739	91,647
Other operating revenue	8	103,329	253,324
		433,591	1,504,495
Operating expenses			
Salaries and other personnel expenses		207,892	429,308
Aviation expenses		171,451	568,455
Other operating expenses		140,742	368,756
	9	520,085	1,366,519
Operating (loss) profit before depreciation and amortisation (EBITDA)		(86,494)	137,976
Depreciation and amortisation	11	(160,343)	(177,273)
Impairment	18	(116,158)	0
Operating loss (EBIT)		(362,995)	(39,297)
Finance income		2,735	7,044
Finance costs		(29,579)	(32,994)
Fair value changes		(43,026)	0
Gain on sale of a subsidiary		22,454	0
Net finance costs	12	(47,416)	(25,950)
Share of loss of associates	20	(27,423)	(7,354)
Loss before tax (EBT)		(437,834)	(72,601)
Income tax	23	61,658	14,822
Loss for the year		(376,176)	(57,779)
Other comprehensive (loss) income			
Items that are or may be reclassified to profit or loss			
Currency translation differences		(10,615)	(1,276)
Cash flow hedges - effective portion of changes in fair value, net of tax	36	(5,274)	26,463
Net loss on hedge of investment, net of tax	36	(16,749)	(2,241)
Other comprehensive (loss) income for the year		(32,638)	22,946
Total comprehensive loss for the year		(408,814)	(34,833)
Owners of the Company		(366,567)	(55,669)
Non-controlling interests		(9,609)	(2,110)
Loss for the year		(376,176)	(57,779)
Total Comprehensive loss attributable to:			
Owners of the Company		(399,205)	(32,715)
Non-controlling interests		(9,609)	(2,118)
Total comprehensive loss for the year		(408,814)	(34,833)
Earnings per share:			
Basic earnings per share in US cent per share	29	(3.04)	(1.06)
Diluted earnings per share in US cent per share	29	(3.04)	(1.06)

* See further note 45.

The notes on pages 15 to 64 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2020 12 Amounts are in USD thousand

Consolidated Statement of Financial Position as at 31 December 2020

	Notes	2020	2019
Assets:			
Operating assets	13-16	498,438	630,400
Right-of-use assets	17	119,790	134,035
Intangible assets and goodwill	18-19	60,261	175,231
Investments in associates	20	9,603	25,784
Deferred cost	21	3,537	4,741
Receivables and deposits	22	21,686	44,967
Deferred tax asset	23	38,836	0
Non-current assets		752,151	1,015,158
Inventories	24	23,383	22,689
Derivatives used for hedging	36	0	1,881
Trade and other receivables	26	99,334	124,879
Assets held for sale	7	0	276,907
Marketable securities	25	41,713	0
Cash and cash equivalents	27	117,657	235,073
Current assets		282,087	661,429
Total assets		1,034,238	1,676,587
Equity:			
Share capital		212,969	44,199
Share premium		13,208	174,299
Reserves		8,373	45,449
Retained earnings		0	219,132
Equity attributable to equity holders of the Company	28	234,550	483,079
Non-controlling interests		(1,741)	(601)
Total equity		232,809	482,478
Liabilities:			
Loans and borrowings	30	239,575	241,328
Lease liabilities	31	119,707	135,473
Payables	33	17,087	23,418
Derivatives used for hedging	36	5,958	0
Warrants	32	18,635	0
Deferred tax liabilities	23	0	25,679
Non-current liabilities		400,962	425,898
Loans and borrowings	30	24,013	79,958
Lease liabilities	31	26,890	22,980
Warrants	32	9,129	0
Derivatives used for hedging	36	11,333	1,561
Liabilities held for sale	7	0	238,732
Trade and other payables	34	141,700	221,000
Deferred income	35	187,402	203,980
Current liabilities		400,467	768,211
Total liabilities		801,429	1,194,109
Total equity and liabilities		1,034,238	1,676,587

The notes on pages 15 to 64 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2020 13 Amounts are in USD thousand

Consolidated Statement of Changes in Equity for the year 2020

	Attributable to equity holders of the Company						
2019	**Share capital**	**Share premium**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2019	39,053	133,513	26,262	271,034	469,862	1,517	471,379
Shares issued	5,146	40,786			45,932		45,932
Total comprehensive loss			22,954	(55,669)	(32,715)	(2,118)	(34,833)
Effects of profit or loss of subsid. and associates less of dividend received			(3,767)	3,767	0		0
Balance at 31 December 2019	44,199	174,299	45,449	219,132	483,079	(601)	482,478

2020	**Share capital**	**Share premium**	**Reserves**	**Retained earnings**	**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)
Total comprehensive loss			(32,638)	(366,567)	(399,205)	(9,609)	(408,814)
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

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

The notes on pages 15 to 64 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2020 14 Amounts are in USD thousand

Consolidated Statement of Cash Flows

	Notes	2020	2019
Cash flows from operating activities:			
Loss for the year		(376,176)	(57,779)
Adjustments for:			
Depreciation and amortisation	11	160,343	177,273
Impairment	18	116,158	0
Expensed deferred cost		13,118	11,635
Net finance costs	12	26,844	25,950
Changes in fair value		43,026	0
Gain on sale of operating assets		(7,882)	(2,479)
Gain on sale of a subsidiary		(22,454)	0
Share in loss of associates		27,423	7,355
Income tax	23	(61,658)	(14,822)
		(81,258)	147,133
Changes in:			
Inventories	24	(726)	2,935
Trade and other receivables		32,732	(4,044)
Trade and other payables		(108,060)	(2,839)
Deferred income		(18,715)	8,091
Cash (used in) from generated operating activities		(94,769)	4,143
Interest received		2,077	3,112
Interest paid		(19,269)	(34,510)
Net cash (used in) from operating activities		(193,219)	119,878
Cash flows to investing activities:			
Acquisition of operating assets	13	(41,790)	(253,447)
Proceeds from sale of operating assets		25,726	155,067
Acquisition of intangible assets	18	(730)	(5,654)
Deferred cost, change		(6,640)	(10,173)
Proceeds from sale of a subsidiary		45,312	0
Non-current receivables, change		22,476	(12,963)
Cash attributable to assets held for sale	7	(4,920)	(11,487)
Marketable securities, change		(41,713)	0
Net cash used in investing activities		(2,279)	(138,657)
Cash flows to financing activities:			
Shares issued	28	166,396	45,932
Proceeds from loans and borrowings	30	0	200,789
Repayment of loans and borrowings	30	(21,874)	(236,152)
Repayment of lease liabilities	31	(22,606)	(30,783)
Short term loans, change	30	(42,257)	(24,726)
Net cash from (used in) financing activities		79,659	(44,940)
Change in cash and cash equivalents		(115,839)	(63,719)
Effect of exchange rate fluctuations on cash held		(1,577)	(668)
Cash and cash equivalents at beginning of the year		235,073	299,460
Cash and cash equivalents at 31 December	27	117,657	235,073
Investment and financing without cash flow effect:			
Acquisition of right-of-use assets	17	(3,938)	(100,037)
New or renewed leases	31	7,060	110,750
Non-current receivables		(3,121)	(10,713)
Warrants issued	32	(16,197)	0
Retained earnings		16,197	0

The notes on pages 15 to 64 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2020 15 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 2020 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 8 February 2021.

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 47.

c. Going Concern

These Consolidated Financial Statements are prepared on a going concern basis. Despite substantial uncertainty the Board of Directors believes that it is appropriate to prepare these Consolidated Financial Statements on a going concern basis because of planned action and actions already taken to strengthen the Group's financial standing and liquidity. See further note 19 and 43.

3. Functional and presentation currency

The Company's functional currency is U.S. dollars (USD). These Consolidated Financial Statements are presented in U.S dollars (USD). All financial information presented in USD has been rounded to the nearest thousand, unless otherwise indicated.

4. Use of estimates and judgements

In preparing these Consolidated Financial Statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. Due to COVID-19, the aviation and travel industries are facing tremendous uncertainty. Travel restrictions are still in place to and from the US, one of Group's most important geographical segment, and various countries in Europe still apply certain restrictions which affect travellers. There is also great 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 2020 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 2020 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 passenger airline Icelandair ehf., including its subsidiaries Icelandair Cargo and Air Iceland Connect, has been identified for financial reporting purposes as a reportable operating segment. 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. Icelandair Cargo offers freight services by utilizing the capacity within aircraft of the Icelandair passenger network as well as with their own freighters. Air Iceland Connect, the domestic and regional carrier, was integrated into the operations of Icelandair in the beginning of Q2 2020.

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, IceCap, a captive insurance company and A320, a dormant, 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, Iceland Travel, the largest business to business destination management tour operator in Iceland, 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.

In Q1 2020 Icelandair Hotels was also classified within this segment. As of 3 April 2020, Icelandair Hotels are classified as an investment in associates.

Notes, contd.:

6. Operating segments, contd.:

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)
Gain on sale of subsidiary	0	22,454	22,454
Fair value change	(43,026)	0	(43,026)
Share of profit of equity accounted investees	(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
Investment in associates	9,442	0	9,442
Capital expenditure	48,193	4,207	52,400
Reportable segment liabilities	1,318,483	53,659	1,372,142

Reportable segments for the year 2019 (restated)

	Passenger and cargo operations	Other group entities	Total
External revenue	1,217,119	287,376	1,504,495
Inter-segment revenue	119,904	9,804	129,708
Segment revenue	1,337,023	297,180	1,634,203
Depreciation and amortisation	(153,788)	(23,485)	(177,273)
Segment EBIT	(63,049)	23,752	(39,297)
Finance income	20,795	1,294	22,089
Finance costs	(39,759)	(8,280)	(48,039)
Share of profit of equity accounted investees	268	(7,622)	(7,354)
Reportable segment loss before tax	(81,745)	9,144	(72,601)
Reportable segment assets	1,961,416	369,913	2,331,329
Investment in associates	25,614	0	25,614
Capital expenditure	240,033	29,241	269,274
Reportable segment liabilities	1,329,760	307,350	1,637,110

Consolidated Financial Statements of Icelandair Group hf. 2020 19 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

	2020	2019
Revenue		
Total revenue for reportable segments	497,471	1,634,203
Elimination of inter-segment revenue	(63,880)	(129,708)
Consolidated revenue	433,591	1,504,495
Profit or loss		
Consolidated continuing profit before tax	(437,834)	(72,601)
Assets		
Total assets for reportable segments	1,530,732	2,331,329
Investments in associates	9,442	25,614
Elimination of inter-segment assets	(505,936)	(680,356)
Consolidated total assets	1,034,238	1,676,587
Liabilities		
Total liabilities for reportable segments	1,372,142	1,637,110
Elimination of inter-segment liabilities	(570,713)	(443,001)
Consolidated total liabilities	801,429	1,194,109

Other material items

	Reportable segment totals	Adjust-ments	Consoli-dated totals
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
2019			
Segment EBIT	(39,297)		(39,297)
Finance income	22,089	(15,045)	7,044
Finance costs	(48,039)	15,045	(32,994)
Share of profit of associates	(7,354)		(7,354)
Capital expenditure	240,033	29,241	269,274

Consolidated Financial Statements of Icelandair Group hf. 2020 20 Amounts are in USD thousand

Notes, contd.:

6. Operating segments, contd.:

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 the year 2020 are not directly comparable to the numbers for the year 2019.

	2020	2019
Revenues		
North America	19%	39%
Iceland	42%	23%
West Continental Europe	20%	15%
Scandinavia	5%	7%
United Kingdom	4%	5%
Other	10%	11%
Total revenues	100%	100%
Available Seat Kilometers (ASK'000) Icelandair	3,129,976	16,679,011
Available Seat Kilometers (ASK'000) Air Iceland Connect	60,627	142,788
Freight Tonne Kilometer (FTK'000) Icelandair Cargo	114,956	132,989
Sold Block Hours Loftleidir Icelandic	14,180	30,118

Notes, contd.:

7. Assets held for sale

In 2019 Icelandair Hotels and Iceland Travel were classified as held for sale. On 13 July 2019 the Company signed a share purchase agreement with Berjaya Property Ireland Limited, a subsidiary of Berjaya Land Berhad, whereby Berjaya acquired a majority share in Icelandair Hotels and related real estate. The sale was ultimately closed on 3 April 2020 with the 75% share being delivered to Berjaya the same day. The Company will retain its 25% share for a minimum of three years in line with the terms of a call and put option agreement between the parties.

From 3 April 2020 the 25% share in Icelandair Hotels is classified as an investment in associates. The total sales price for the Company's shares has been paid in full, USD 45.3 million. The profit from the sale of 75% of shares amounted to USD 15.4 million after impairment (see further note 20) and was recognized in Q2 2020.

In the beginning of 2020, Iceland Travel was reclassified from assets held for sale. Iceland Travel was again classified as held for sale in the beginning of 2021. See further note 44.

Impacts on Consolidated Financial Statements

(i) Comprehensive income (loss)	2020 *	2019 **
Revenue	13,258	168,304
Elimination of inter-segment revenue	(979)	(6,711)
External revenue	12,279	161,593
Expenses	18,297	162,792
Elimination of expenses of inter-segment sales	(979)	(9,527)
External expenses	17,318	153,265
(Loss) profit from operating activities	(5,039)	8,328
Net finance cost	(9,190)	(6,980)
Share of profit of accosiates	2	(3)
(Loss) profit before tax	(14,227)	1,345
Income tax	2,648	820
(Loss) profit from tourism services, net of tax	(11,579)	2,165
Basic earnings per share in US cent per share	(0.21)	0.04
Diluted earnings per share in US cent per share	(0.21)	0.04

(ii) Cash flows (used in) from		
Net cash from operating activities	(1,335)	19,242
Net cash used in investing activities	(405)	(47,523)
Net cash from financing activities	(2,790)	28,713
Net cash flows for the period	(4,530)	432

* Icelandair Hotels
** Icelandair Hotels and Iceland Travel

Consolidated Financial Statements of Icelandair Group hf. 2020 22 Amounts are in USD thousand

Notes, contd.:

7. Assets held for sale, contd.:

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

No assets or liabilities were held for sale in the Consolidated Statements of Financial Position at end of December 2020. Both Icelandair Hotels and Iceland Travel were classified as held for sale as at 31 December 2019. The carrying amounts of the major classes of assets and liabilities were as follows:

	31.12.2020	31.12.2019
Operating assets	0	100,201
Right-of-use-assets	0	145,909
Intangible assets and goodwill	0	7,437
Investments in associates	0	1,011
Inventories	0	902
Trade and other receivables	0	9,960
Cash and cash equivalents	0	11,487
Total assets	0	276,907
Deferred tax liabilities	0	2,045
Loans and borrowings	0	66,098
Lease liabilities	0	149,554
Trade and other payables	0	13,451
Deferred income	0	7,584
Total liabilities	0	238,732
Net assets and liabilities	0	38,175

8. Operating income

Transport revenue is specified as follows:	2020	2019
Passengers	177,321	1,004,998
Passenger ancillary revenues	21,719	96,090
Cargo	66,483	58,436
Total transport revenue	265,523	1,159,524
Other operating revenue is specified as follows:		
Sale at airports and hotels	12,864	94,699
Revenue from tourism	18,069	104,196
Aircraft and cargo handling services	16,207	24,935
Maintenance revenue	1,758	4,746
Gain on sale of operating assets	7,882	2,461
Other operating revenue	46,549	22,287
Total other operating revenue	103,329	253,324

Consolidated Financial Statements of Icelandair Group hf. 2020 23 Amounts are in USD thousand

Notes, contd.:

9. Operating expenses

Salaries and other personnel expenses are specified as follows:	2020	2019 Restated *
Salaries	199,926	340,518
Contributions to pension funds	31,198	51,361
Other salary-related expenses	5,045	37,429
Reduction of salary cost, see further note 42	(28,277)	0
Total salaries and other personnel expenses	207,892	429,308
Average number of full year equivalents **	2,621	4,715
Full time equivalents at period end ***	1,531	4,256
Gender ratio for employees (male / female)	52 / 48	47 / 53

* See further note 45.

** 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.

*** Excluding employees that have been given notice.

Aviation expenses are specified as follows:	2020	2019
Aircraft fuel	76,450	323,518
Aircraft lease	7,423	32,174
Aircraft handling, landing and communication	40,399	133,585
Aircraft maintenance expenses	47,179	79,178
Total aviation expenses	171,451	568,455

Other operating expenses are specified as follows:	2020	2019 Restated *
Operating cost of real estates and fixtures	6,648	17,526
Communication	17,887	25,205
Advertising	9,443	24,125
Booking fees and commission expenses	19,885	73,239
Cost of goods sold	2,671	14,398
Customer services	17,530	61,026
Travel and other employee expenses	20,664	60,520
Tourism expenses	8,625	50,727
Allowance for bad debt	14,704	5,492
Other operating expenses	22,685	36,498
Total other operating expenses	140,742	368,756

* See further note 45.

10. Auditor's fee

Auditor's fees are specified as follows:	Group auditors 2020	Group auditors 2019	Other auditors 2020	Other auditors 2019
Audit	375	480	21	21
Other services	100	92	0	4
	475	572	21	25

11. Depreciation and amortisation

The depreciation and amortisation charge in profit or loss is specified as follows:	2020	2019
Depreciation of operating assets, see note 13	136,821	143,878
Depreciation of right-of-use assets, see note 17	20,556	28,932
Amortisation of intangible assets, see note 18	2,966	4,463
Depreciation and amortisation recognized in profit or loss	160,343	177,273

Consolidated Financial Statements of Icelandair Group hf. 2020 24 Amounts are in USD thousand

Notes, contd.:

12. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2020	2019
Interest income on cash and cash equivalents	854	2,106
Interest income on lease receivables	452	875
Other interest income	1,429	127
Net currency exchange gain	0	3,936
Finance income total	2,735	7,044
Interest expense on loans and borrowings	9,867	19,686
Interest expenses on lease liabilities	8,300	12,470
Interest on pre-delivery payments for aircraft (PDPs), see note 38	3,755	0
Other interest expenses	1,510	838
Net currency exchange loss	6,147	0
Finance costs total	29,579	32,994
Changes in fair value of warrants, see note 32	(10,452)	0
Changes in fair value of derivatives, see note 36	(32,574)	0
Fair value changes	(43,026)	0
Gain on sale of a subsidiary	22,454	0
Net finance costs	(47,416)	(25,950)

13. Operating assets

Operating assets are specified as follows:

	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Cost				
Balance at 1 January 2019	799,140	96,304	88,734	984,178
Additions	233,218	0	20,228	253,447
Sales and disposals	(241,141)	(1,030)	(2,439)	(244,610)
Reclassification	0	12,420	(12,420)	0
Assets classified as held for sale	0	0	(211)	(211)
Effects of movements in exchange rates	(110)	(4,183)	(2,697)	(6,990)
Balance at 31 December 2019	791,107	103,511	91,195	985,814
Additions	37,768	1,813	2,210	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	774,244	91,285	88,341	953,870
Depreciation and impairment losses				
Balance at 1 January 2019	266,155	17,180	27,423	310,758
Depreciation	125,178	5,393	13,307	143,878
Sales and disposals	(90,955)	(799)	(4,074)	(95,828)
Reclassification	0	2,345	(2,345)	0
Assets classified as held for sale	0	(853)	(145)	(998)
Effects of movements in exchange rates	(344)	(1,153)	(900)	(2,397)
Balance at 31 December 2019	300,034	22,113	33,266	355,413
Depreciation	122,370	3,656	10,796	136,821
Sales and disposals	(27,115)	(1,396)	(5,678)	(34,189)
Assets classified as held for sale	0	(1,616)	133	(1,484)
Effects of movements in exchange rates	(24)	(1,005)	(102)	(1,131)
Balance at 31 December 2020	395,265	21,752	38,414	455,431

Consolidated Financial Statements of Icelandair Group hf. 2020 25 Amounts are in USD thousand

Notes, contd.:

13. Operating assets, contd.:

Cost	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Carrying amounts				
At 1 January 2019	532,985	79,124	61,311	673,420
At 31 December 2019	491,073	81,398	57,929	630,400
At 31 December 2020	378,979	69,533	49,926	498,438
Depreciation ratios	4-20%	2-6%	5-33%	

Acquisition of operating assets in 2020 amounted to USD 41.8 million. (2019: USD 253.4 million). Overhaul of own engines and aircraft spare parts in the amount of USD 37.8 million (2019: USD 233.2 million). See further in note 38.

On 8 October 2020 the Company announced an agreement regarding the sale of three of its Boeing 757-200 aircraft. One of the aircraft was delivered in December with the two remaining aircraft expected to be delivered in Q1 2021.

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 263.6 million at year end 2020 (2019: USD 308.9 million). The Group owns 36 aircraft including 23 Boeing 757, 5 Boeing 767 and 2 Boeing 737 MAX. At year end, 8 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	
	2020	2019	2020	2019
Boeing - 30 / 35 aircraft	676,000	771,000	312,504	408,475
Other - 6 / 6 aircraft	50,300	60,300	35,500	41,207
Flight equipment	82,708	67,571	30,975	41,392
Total aircraft and flight equipment	809,008	898,871	378,979	491,074

16. Insurance value of buildings and other operating assets

The principal buildings owned by the Group are the following:

2020	Maintenance hangars	Staff apartments	Office buildings	Other buildings	Total
Official assessment value	36,464	7,005	14,103	11,990	69,562
Insurance value	70,481	14,268	37,459	37,731	159,939
Carrying amounts	27,328	4,843	15,936	21,426	69,533
Square meters	31,814	6,921	13,262	17,916	69,913
2019					
Official assessment value	36,631	7,926	26,588	12,304	83,449
Insurance value	70,771	14,720	58,049	38,171	181,711
Carrying amounts	29,612	5,339	24,097	22,350	81,398
Square meters	31,814	6,921	19,736	17,916	76,387

Official valuation of the Group's leased land for buildings at 31 December 2020 amounted to USD 14.2 million (2019: USD 16.6 million) and is not included in the Consolidated Statement of Financial Position.

Insurance value of the Group's other operating assets and equipment amounted to USD 66.3 million at year end 2020 (2019: USD 65.6 million). The carrying amount at the same time was USD 49.9 million (2019: USD 57.9 million).

Consolidated Financial Statements of Icelandair Group hf. 2020 26 Amounts are in USD thousand

Notes, contd.:

17. Right of use assets

	Land & Real Estate	Aircraft	Other	Total
Balance at 1 January 2019	196,639	53,783	958	251,380
Adjustments *	(24,378)	(12,082)	(80)	(36,540)
Adjustments for indexed leases	3,704	(2,116)	22	1,610
New or renewed leases	(445)	100,053	429	100,037
Depreciation	(12,693)	(15,595)	(644)	(28,932)
Reclassified to assets held for sale	(145,862)	0	(47)	(145,909)
Currency translation adjustment	(7,614)	0	3	(7,611)
Balance at 31 December 2019	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 include reclassification from right-of-use-assets to receivable and lease liability to payables and recalculation of lease agreements. In the case of aircraft it is also included reclassification of engine provision.

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 2019	151,833	36,013	6,988	194,834
Reclassification	1,448	(1,448)	0	0
Additions	0	0	5,654	5,654
Sales and disposals	0	0	(242)	(242)
Assets classified as held for sale	(1,988)	0	(4,749)	(6,737)
Effects of movements in exchange rates	(758)	0	(205)	(963)
Balance at 31 December 2019	150,535	34,565	7,446	192,546
Additions	0	0	730	730
Sales and disposals	(94,878)	0	(336)	(95,214)
Assets classified from 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
Amortisation and impairment losses				
Balance at 1 January 2019	11,431	2,605	3,230	17,266
Amortisation	959	0	3,504	4,463
Sales and disposals	0	0	(44)	(44)
Assets classified as held for sale	(433)	0	(3,857)	(4,290)
Effects of movements in exchange rates	0	0	(80)	(80)
Balance at 31 December 2019	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
Sales and disposals	(94,878)	0	(102)	(94,980)
Assets classified from 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	8,750	44,663

Consolidated Financial Statements of Icelandair Group hf. 2020 27 Amounts are in USD thousand

Notes, contd.:

18. Intangible assets and goodwill, contd.:

Carrying amounts	Goodwill	Trademarks and slots	Other intangibles	Total
At 1 January 2019	140,402	33,408	3,758	177,568
At 31 December 2019	138,578	31,960	4,693	175,231
At 31 December 2020	24,594	31,960	3,707	60,261

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:

	2020	2019
Goodwill	24,594	138,578
Trademarks and airport slots	31,960	31,960
Total	56,554	170,538

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	
	2020	2019 Restated	2020	2019 Restated
Passenger and cargo operations	0	82,850	22,445	22,445
Other group entities	24,594	55,728	9,515	9,515
Total goodwill	24,594	138,578	31,960	31,960

The Group's operations have been significantly affected by the COVID-19 outbreak and the associated wide-ranging travel bans and decrease in travel demand. The Group is facing tremendous uncertainty regarding when travel restrictions will be lifted and demand will increase again. To respond to the situation, the management has taken extensive measures to get the Group through an extended period of minimum operations, including a considerable reduction in the number of employees and changes to its organizational structure. At the same time, necessary core operations are being secured to maintain the flexibility needed for a quick scale-up when markets recover.

Therefore, the management has revised its long term business plan and increased the flexibility to cope with the unprecendented circumstances in the world. The business plan assumes that minimum operations are maintained for as long as necessary and that capacity is rationally increased when demand starts to justify ramp-up at some level in the summer of 2021. The business plan assumes that it can take some years for production to resume its pre-COVID levels and it is expected that those levels will be reached in the years 2024-2025.

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. Management believes that this forecast period was justified due to the long-term nature of the business.

An impairment test was conducted on 31 March 2020 that led to impairment being recognized in Q1 2020 as further outlined below. An impairment test was also conducted at year-end which led to no further impairment. Only intangible assets have been impaired and there is no indication of further impairment of other assets.

Consolidated Financial Statements of Icelandair Group hf. 2020 28 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:

2020	Passenger and cargo operations	Other Group entities *
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	190.2%	203.4%
WACC	9.2%	15.3%
Debt leverage	63.4%	56.0%
Interest rate for debt	4.5%	3.7%
2019		
Long term growth rate	3.5%	3.1%
Revenue growth:		
Weighted average 2019/2018	10.7%	-19.7%
2019 - 2024	4.5%	6.4%
Budgeted EBIT growth	202.4%	5.2%
WACC	10.4%	11.4%
Debt leverage	43.9%	34.1%
Interest rate for debt	4.2%	3.8%

* Weighted avarage of underlying CGU.

The recoverable amounts of the CGU at 31 March 2020 were estimated to be lower than carrying amounts. Therefore, impairment amounting to USD 116.2 million in total has been recognized. The estimated recoverable amount of the Icelandair segment was lower than its carrying amount by USD 77.6 million. A change in WACC by 0,04% or long term EBIT by 0,08% would lead to an impairment equal to the full carrying amount. Due to the sensitivity of the impairment test, the full amount of goodwill in the Icelandair segment was recognized as impaired at 31 March 2020 (USD 82.9 million).

An impairment of USD 33.3 million was recognized for one other Group entity as a result of the impairment test at 31 March 2020.

Consolidated Financial Statements of Icelandair Group hf. 2020 29 Amounts are in USD thousand

Notes, contd.:

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:

		2020		2019	
	Ownership	Carrying amount	Share of profit/loss in associates	Carrying amount	Share of profit/loss in associates
Cabo Verde Airlines	36%	0	0	0	(7,600)
EBK ehf.	25%	1,230	124	1,154	210
ITF 1 slhf.	29%	6,291	(2,093)	9,009	196
Icelandair Hotels	25%	13	(12,657)	0	0
Lindarvatn ehf.	50%	1,893	(12,792)	15,435	(69)
Other investments		176	(5)	186	(91)
Total investments in associates		9,603	(27,423)	25,784	(7,354)
Non-controlling interest in Cabo Verde Airlines					2,286
Loss of associates attributable to owners of the Company					(5,068)

The book value of the Group's share in Cabo Verde Airlines (TACV) has been fully expensed. Reserves have been made against all receivables on TACV and therefore, the Group has no further exposure on TACV. Negative developments in TACV operations might impact future operations of Loftleiðir Icelandic due to leased aircraft.

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

ITF 1 slhf. is a fund managed by Landsbref. The Fund's purpose is to invest in Icelandic companies focusing on entertainment and experience for foreign tourists. Main focus is on whole year projects which contribute to better utilization of the infrastructure in the Icelandic Tourism industry.

Icelandair Hotels is classified as an investment in associates as of 3 April 2020 when 75% of shares in the entity were sold. The total sales price for the Company's shares was USD 45.3 million. Due to the uncertainty in relation to COVID-19 and the effects thereof, the capitalized goodwill resulting from the sale on the remaining 25% share, USD 7.1 million, was fully impaired in Q2 2020 through share of loss of associates. The profit from the sale of the 75% of shares amounted to USD 15.4 million after the aforementioned impairment. See note 7.

Lindarvatn ehf. is the owner of a property at Thorvaldsensstræti and other properties located near Austurvollur which are being rebuilt as a hotel. In Q4 2020, the premium of Lindarvatn, USD 12.8 million, was impaired due to the uncertainty in relation to COVID-19 and the effects thereof.

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:

	2020	2019
Deferred cost	4,656	5,775
Current portion, classified as prepayments among receivables	(1,119)	(1,034)
Total deferred cost	3,537	4,741
Deferred cost will be expensed as follows:		
Expensed in 2020	-	1,034
Expensed in 2021	1,119	1,006
Expensed in 2022	1,119	1,006
Expensed in 2023	1,119	1,006
Expensed in 2024	1,119	1,006
Expensed in 2025	180	717
Total deferred cost, including current portion	4,656	5,775

Consolidated Financial Statements of Icelandair Group hf. 2020 30 Amounts are in USD thousand

Notes, contd.:

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:	2020	2019
Loans, effective interest rate 6% / 6%	47	9,408
Lease receivable, interest rate 5% / 5%	12,703	21,279
Security deposits	12,027	9,012
Prepayments on aircraft purchases (see disclosure 38)	17,642	28,392
	42,419	68,091
Current maturities	(20,733)	(23,124)
Non-current receivables and deposits total	21,686	44,967
Contractual repayments mature as follows:		
Maturities in 2020	-	23,124
Maturities in 2021	20,733	26,706
Maturities in 2022	5,778	3,089
Maturities in 2023	3,360	4,021
Maturities in 2024	3,347	3,665
Maturities in 2025	165	833
Subsequent	9,036	6,653
Total non-current receivables and deposits, including current maturities	42,419	68,091

Non-current receivables and deposits denominated in currencies other than the functional currency comprise USD 2.7 million (2019: USD 3.7 million).

23. Income taxes

(i) Amounts recognized in profit or loss

	2020	2019
Deferred tax expense		
Origination and reversal of temporary differences	(61,658)	(14,822)
Total tax expense recognized in profit or loss	(61,658)	(14,822)

(ii) Amounts recognized in other comprehensive income

	2020	2019
Effective portion of changes in fair value of cash flow hedge	(3,902)	6,634
Exchange rate difference	(1,318)	(560)
Total tax recognized in other comprehensive income	(5,220)	6,074

(iii) Reconciliation of effective tax rate

		2020		2019
Loss before tax		(437,834)		(72,601)
Income tax according to current tax rate	20.0%	(87,567)	20.0%	(14,520)
Non-deductible expenses	(0.0%)	90	(0.2%)	173
Warrants	(0.5%)	2,090	0.0%	0
Impairment	(5.3%)	23,232	0.0%	0
Gain on sale of subsidiary	1.0%	(4,491)	0.0%	0
Share of loss of associates	(1.3%)	5,485	(2.0%)	1,471
Other items	0.1%	(497)	2.7%	(1,946)
Effective tax rate	14.1%	(61,658)	20.4%	(14,822)

Consolidated Financial Statements of Icelandair Group hf. 2020 31 Amounts are in USD thousand

Notes, contd.:

23. Income taxes, contd.:

(iv) Recognized deferred tax liabilities

Deferred tax liabilities are specified as follows:

	2020	2019
Deferred tax liabilities 1 January	25,679	32,868
Deferred tax recognized in profit or loss	(61,658)	(14,822)
Income tax recognized in other comprehensive income	(5,220)	6,074
Exchange rate difference	2,022	(52)
Deferred tax liabilities transferred to assets held for sale	341	1,611
Deferred tax (assets)liabilities 31 December	(38,836)	25,679

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

	Assets		Liabilities		Net	
	2020	2019	2020	2019	2020	2019
Operating assets	0	0	(45,954)	(60,563)	(45,954)	(60,563)
Intangible assets	0	0	(259)	(307)	(259)	(307)
Derivatives	3,889	0	0	(13)	3,889	(13)
Trade receivables	1,901	409	0	0	1,901	409
Operating lease	1,765	1,572	0	0	1,765	1,572
	7,555	1,981	(46,213)	(60,883)	(38,658)	(58,902)
Tax loss carry-forwards	74,193	35,394	0	0	74,193	35,394
Other items	3,301	0	0	(2,171)	3,301	(2,171)
Deferred income tax	85,049	37,375	(46,213)	(63,054)	38,836	(25,679)

(vi) Movements in deferred tax balance during the year

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
2019						
Operating assets	(62,050)	1,095	204	0	188	(60,563)
Intangible assets	(277)	(36)	6	0	0	(307)
Derivatives	6,665	0	(44)	(6,634)	0	(13)
Trade receivables	(44)	503	2	0	(52)	409
Tax loss carry-forwards	23,563	12,762	(82)	0	(849)	35,394
Operating lease	0	2,395	15	0	(838)	1,572
Other items	(725)	(1,897)	(49)	560	(60)	(2,171)
	(32,868)	14,822	52	(6,074)	(1,611)	(25,679)

24. Inventories

Inventories are specified as follows:

	2020	2019
Spare parts	19,636	18,535
Other inventories	3,747	4,154
Inventories total	23,383	22,689

Consolidated Financial Statements of Icelandair Group hf. 2020 32 Amounts are in USD thousand

Notes, contd.:

25. Marketable securities

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:

	2020	2019
Trade receivables	33,258	69,281
Prepayments	6,894	16,881
Restricted cash	10,300	5,232
Lease receivables	5,400	6,598
Other receivables	43,482	26,887
Trade and other receivables total	99,334	124,879

At year end trade receivables are presented net of an allowance for doubtful accounts of USD 14.3 million (2019: USD 7.8 million).

Prepayment and prepaid expenses which relate to subsequent periods amounted to USD 6.9 million (2019: USD 16.9 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.

27. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	2020	2019
Fixed bank deposits	39,216	0
Bank deposits	78,179	234,818
Cash on hand	262	255
Cash and cash equivalents total	117,657	235,073

28. Equity

Share capital

The Company's share capital amounts to ISK 28,437,661 thousand according to its Articles of Association. Each share carries one vote at shareholders' meetings. The shares are freely transferrable unless otherwise stipulated by law. All shareholders hold equal rights to dividend payments as declared from time to time. In accordance with a resolution passed at a shareholders' meeting on 22 May 2020, the Company's share capital was increased by 23 billion new shares following a public share offering in September. In addition, investors who were allocated new shares in the offering were issued warrants to subscribe to further new shares in the Company that may be exercised at certain dates over the next two years. The warrants amount to 25% of the nominal value of the new shares issued as a result of the offering. If all warrants are exercised they will raise an additional ISK 5,750 million in equity for the Company. New shares issued as a result of the warrants being exercised will be issued within the same share class as all existing Icelandair Group shares. See note 32.

The Company held no treasury shares at year end 2020.

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.

Consolidated Financial Statements of Icelandair Group hf. 2020 33 Amounts are in USD thousand

Notes, contd.:

28. Equity, contd.:

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 affiliates	Total reserves
Balance 1 January 2019	(34,198)	35,562	24,898	26,262
Effects of profit or loss of subsidiaries and associates less of dividend received			(3,767)	(3,767)
Currency translation differences		(1,268)		(1,268)
Net loss on hedge of investment, net of tax	(2,241)			(2,241)
Effective portion of changes in fair value of cash flow hedges, net of tax	26,463			26,463
Balance at 31 December 2019	(9,976)	34,294	21,131	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	(16,749)			(16,749)
Effective portion of changes in fair value of cash flow hedges, net of tax	(5,274)			(5,274)
Balance at 31 December 2020	(31,999)	23,679	16,693	8,373

Dividend

No dividend was paid to shareholders in 2019 and 2020.

The Board of Directors proposes no dividend payment to shareholders in 2021 for the year 2020.

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:

	2020	2019
Loss for the year attributable to equity holders of the parent company	(366,567)	(55,669)
Weighted average number of shares for the year	12,054,099	5,243,635
Basic earnings per share in US cent per share	(3.04)	(1.06)
Diluted earnings per share in US cent per share	(3.04)	(1.06)

Consolidated Financial Statements of Icelandair Group hf. 2020 34 Amounts are in USD thousand

Notes, contd.:

30. Loans and borrowings

This note provides information on contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised 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 2019	42,882	372,919	415,801
Proceeds from loans and borrowings	0	145,200	145,200
Proceeds from loans and borrowings on assets held for sale	0	56,700	56,700
Transaction cost of long-term loans and borrowings	0	(1,111)	(1,111)
Repayment of borrowings	0	(236,152)	(236,152)
Cash flows related to financing activities	0	(35,363)	(35,363)
Loans on assets held for sale at beginning of period	35,651	0	35,651
Proceeds from loans and borrowings on assets held for sale	8,444	0	8,444
Prepayment of borrowing on assets held for sale	(32,546)	0	(32,546)
Loans on assets held for sale	(9,398)	(56,700)	(66,098)
Proceeds from loans and borrowings	12,364	0	12,364
Prepayment of borrowings	(12,852)		(12,852)
Financing activities without cash flows	1,663	(56,700)	(55,037)
Currency exchange difference	(2,287)	(2,880)	(5,167)
Expensed borrowing cost recognized in finance cost	0	1,052	1,052
Other liability related changes	(2,287)	(1,828)	(4,115)
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 intrest 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 effective interests	0	434	434
Other liability related changes	(1)	4,376	4,375
Total interest bearing debt 31 December 2020	0	263,588	263,588

Consolidated Financial Statements of Icelandair Group hf. 2020 35 Amounts are in USD thousand

Notes, contd.:

30. Loans and borrowings, contd.:

Loans and borrowings are specified as follows:

	2020	2019
Non-current loans and borrowings:		
Secured bank loans	263,588	279,028
Total loans and borrowings	263,588	279,028
Current maturities	(24,013)	(37,700)
Total non-current loans and borrowings	239,575	241,328
Current loans and borrowings:		
Current maturities of non-current liabilities	24,013	37,700
Bank overdrafts and bank loans	0	42,258
Total current loans and borrowings	24,013	79,958
Total loans and borrowings	263,588	321,286

Terms and debt repayment schedule:

	Currency	Nominal interest rates year end 2020	Year of maturity	Total remaining balance 2020	2019
Secured bank loans	USD	3.5%	2023-2028	164,404	181,505
Secured bank loans	EUR	0.9%	2028	67,559	65,184
Secured bank loans	ISK	2.8%	2026	31,625	32,339
Secured bank loans - short term	USD			0	29,892
Unsecured bank loans - short term	ISK			0	12,366
Total interest bearing liabilities				263,588	321,286

As at 31 December 2020, the Group had undrawn credit lines with local commercial banks USD 52 million.

Additionally, subject to a successful share offering on 18 September 2020, the Company was granted 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.

Repayments of loans and borrowings are specified as follows:

	2020	2019
Repayments in 2020	-	79,958
Repayments in 2021	24,013	38,116
Repayments in 2022	33,450	42,032
Repayments in 2023	44,080	37,896
Repayments in 2024	46,908	54,177
Repayments in 2025	28,120	7,772
Subsequent repayments	87,017	61,335
Total loans and borrowings	263,588	321,286

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. 2020 36 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:	2020	2019
Balance at 1 January	158,453	289,723
Adjustments*	3,450	(55,717)
Adjustments for indexed leases	(85)	1,610
New or renewed leases	7,060	110,750
Repayment of lease liabilities	(22,606)	(30,783)
Reclassified to liabilities held for sale	2,483	(149,554)
Currency translation adjustment	(2,159)	(7,576)
Balance at 31 December	146,597	158,453
Current maturities	(26,890)	(22,980)
Total non-current lease liabilitues	119,707	135,473

* Adjustments include reclassification from right-of-use-assets to receivables and lease liability to payables and recalculation of lease agreements. In the case of aircraft it also includes reclassification of engine provision.

	Rate	Land & Real Estate	Aircraft	Other	Total
Lease liabilities in USD	4.56%	167	131,080	47	131,293
Lease liabilities in ISK, indexed	4.10%	12,868	0	350	13,217
Lease liabilities in GBP	2.21%	1,231	0	5	1,237
Lease liabilities in other currency	3.33%	835	0	14	849
Total lease liability		15,101	131,080	417	146,597

Maturity analysis

Repayments in 2020	-	22,980
Repayments in 2021	26,890	21,189
Repayments in 2022	22,223	19,893
Repayments in 2023	21,649	19,678
Repayments in 2024	18,542	18,048
Repayments in 2025	17,426	17,077
Subsequent repayments	39,866	39,588
Total lease liabilities	146,596	158,453

Extension options

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.

The Group has entered into sale and leaseback agreements for three aircraft that will be delivered in Q2 2021. The lease liability will amount to USD 118.2 million. See further note 38.

Consolidated Financial Statements of Icelandair Group hf. 2020 37 Amounts are in USD thousand

Notes, contd.:

32. Warrant liabilities

On 18 September, 2020, the Company issued 5,750,000,000 warrants to shareholders in connection with a public share offering. Each warrant entitles the holder to purchase one new share in the Company at an exercise price equal to ISK 1.00 (one Icelandic Krona) with an addition of 15% annual interest, calculated according to a US 30/360-day count convention, at specific dates over the next two years. The first interest date is 23 September 2020 and the last interest date for each period is the end date of each respective exercise period, as specified below.

The warrants are free standing financial instruments that are legally detachable and separately exercisable from the shares included in the offering. 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* .

Assumptions	**ICEAIRW 130821**	**ICEAIRW 180222**	**ICEAIRW 120822**
Issue date	18.9.2020	18.9.2020	18.9.2020
Exercise period end date	13.8.2021	18.2.2022	12.8.2022
Share price (ISK) at issue date	1.00	1.00	1.00
Share price (ISK) at reporting date	1.64	1.64	1.64
Exercise price (ISK)	1.13	1.22	1.30
Interest rate (annual)	15.0%	15.0%	15.0%
First interest date	23.9.2020	23.9.2020	23.9.2020
Volatility (annual)	100.7%	80.7%	80.7%
Risk free rate	1.3%	1.3%	1.3%
Time to Maturity (Years)	0.62	1.13	1.62
Fair value per warrant (ISK) at reporting date	0.61	0.60	0.64

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**	**Total**
Fair value at issuance date	5,168	5,255	5,774	16,197
Loss on change in fair value of warrant liability	3,605	3,385	3,462	10,452
Foreign exchanges difference	355	361	398	1,114
Fair value as of period ending	9,129	9,002	9,633	27,764
Non-current warrant liabilities	0	9,002	9,633	18,635
Current warrant liabilities	9,129	0	0	9,129

The fair value of the warrants at issue date, amounting to USD 16.2 million was recognized through retained earnings and as a liability. During the period from the issue date until 31 December 2020 the Company recognized loss on changes in fair value of its warrant liabilities in the amount of USD 10.5 million.

The warrant liabilities are considered Level 2 liabilities on the fair value hierarchy as the determination of fair value includes various assumptions about the future activities and the Company’s share price and historical volatility as inputs. No warrants were exercised during the period ending 31 December 2020.

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Notes, contd.:

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 2021. Non-current obligations are specified as follows:

	2020	2019
Non-current payables	31,335	32,721
Current portion, classified in trade and other payables	(14,248)	(9,303)
Total non-current payables	17,087	23,418
Non-current payables are scheduled to be repaid as follows:		
Repayments in 2020	-	9,303
Repayments in 2021	14,248	11,173
Repayments in 2022	4,768	1,088
Repayments in 2023	332	5,107
Repayments in 2024	8,692	4,317
Repayments in 2025	3,033	1,733
Subsequent	262	0
Total non-current payables, including current maturities	31,335	32,721

34. Trade and other payables

Trade and other payables are specified as follows:	2020	2019
Trade payables	13,662	58,392
Credit lines from acquirers	27,942	0
Current portion of engine overhauls and security deposits from lease contracts	14,248	9,303
Other payables	85,848	153,305
Total trade and other payables	141,700	221,000

As part of its financial restructuring the Company reached agreements with its main acquirers whereby the latter agreed to grant credit lines and payment plans to assists the Company in processing the vast amount of refunds due to COVID-cancelled flights.

The credit lines will decrease in steps through May 2021 when they will be abolished. The payment plans will be in place through June 2022.

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:	2020	2019
Sold unused tickets and vouchers	157,753	161,531
Frequent flyer points	20,641	17,591
Other prepayments	9,008	24,858
Total deferred income	187,402	203,980

The amount allocated to sold unused tickets is the book value of fares and fuel surcharges that the Group has collected and is liable for to passengers. A substantial percentage of passengers have accepted vouchers for future travel in lieu of cash refunds owed to them as a result of cancelled flights. The total amount of issued vouchers at the end of the reporting period was USD 94.2 million. These vouchers are generally valid for 3 years from the date of issuance. The Group assumes that the vouchers will be fully redeemed during their lifetime and has included a projection for their redemption in its working capital assumptions.

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.

Consolidated Financial Statements of Icelandair Group hf. 2020 39 Amounts are in USD thousand

Notes, contd.:

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 disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by internal audit processes which undertake both regular and ad hoc reviews of risk 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 receivables from customers.

Exposure to credit risk

The carrying amounts of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

		Carrying amount	
	Note	**2020**	**2019**
Non-current receivables and deposits	22	21,686	44,967
Trade and other receivables	26	92,440	107,998
Marketable securities	25	41,713	0
Cash and cash equivalents	27	117,657	235,073
		273,496	388,038

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, investment in debt securities and agreements with financial institutions related to hedging. The relative spread of trade receivables across counterparties is also crucial for credit risk exposure. The risk involved is directly related to the fulfilment of outstanding obligations of the Group's counterparties. The Group is aware of potential losses related to credit risk exposure and chooses its counterparties subject to business experience. The Group has not incurred higher than usual credit losses in 2020 despite the extraordinary circumstances resulting from COVID-19, the Group does not expect further credit losses due to COVID-19 than it has already accounted for.

Consolidated Financial Statements of Icelandair Group hf. 2020 40 Amounts are in USD thousand

Notes, contd.:

36. Financial risk management, contd.:

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 2020, the maximum exposure to credit risk for trade and other receivables by type of financial instrument was as follows:

	2020	2019
Credit cards	9,364	7,045
Trade receivables	23,894	62,236
	33,258	69,281
Prepayments on aircraft purchases	0	16,268
Lease receivables	5,399	6,598
Other receivables	60,677	32,732
	99,334	124,879

Impairment losses

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

	Gross 2020	Allowance for impairment 2020	Gross 2019	Allowance for impairment 2019
Not past due	15,821	(205)	55,935	(1,900)
Past due 1-30 days	4,494	(29)	8,938	(110)
Past due 31-120 days	12,907	(4,501)	6,671	(1,894)
Past due 121-365 days	9,284	(5,306)	845	(547)
More than one year	5,057	(4,264)	4,642	(3,299)
Total	47,563	(14,305)	77,031	(7,750)

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

	2020	2019
Balance at 1 January	7,750	4,772
Impairment loss allowance, increase	6,556	173
Amounts written off	(634)	3,423
Exchange rate difference	633	(618)
Balance at 31 December	14,305	7,750

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. These are a simple guarantee for a loan agreement along with guarantees for rental agreements for hotel properties. The guarantees are provided in solidum, but the co-owners have entered into a written agreement to split of these guarantees in line with ownership stakes (25%/75%). The loan guarantee decreases with the loan balance but is valid throughout its maturity. The loan is a five-year term loan with a possibility to extend the repayment profile to a total of 25 years. At the current USD/ISK exchange rate these guarantees total USD 4.2 million.

Consolidated Financial Statements of Icelandair Group hf. 2020 41 Amounts are in USD thousand

Notes, contd.:

36. Financial risk management, contd.:

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 118 million, and USD 42 million of marketable securities with trusted counterparties, total USD 159 million. The level of cash substantially exceeds the liquidity policy given the estimated fixed operating cost associated with the Group's current production levels.

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 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 & prepayment	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)

31 December 2019	**Carrying amount**	**Contractual cash flows**	**Within 12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Non-derivative financial liabilities						
Unsecured bond issue	12,366	12,364	12,364	0	0	0
Secured loans	308,920	345,964	79,743	45,864	145,759	74,598
Lease liability	158,453	188,236	29,684	51,663	44,685	62,204
Payables & prepayments	244,418	244,418	221,000	11,173	10,512	1,733
	724,157	790,982	342,791	108,700	200,956	138,535
Derivative financial liabilities						
Commodity derivatives	966	945	1,115	(170)	0	0
Forward exchange contracts	2,044	3,412	3,412	0	0	0
- Outflow	(102,818)	(103,115)	(103,115)	0	0	0
- Inflow	104,862	106,527	106,527	0	0	0
Interest rate swaps	557	572	173	266	133	0
	3,567	4,929	4,700	96	133	0

Undrawn secured credit lines at year-end 2020 amounted to USD 52 million (2019: USD 55 million). Undrawn Government Guaranteed credit lines amounted to USD 120 million (2019: USD 0 million).

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Notes, contd.:

36. Financial risk management, contd.:

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 of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Following the share offering in September the Company placed a large portion of the proceeds in mutual funds that invest in term deposits with rated domestic banks and 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

The Group is under conventional circumstances exposed to carbon price risk. In terms of volume, carbon emission is a fixed proportion of the fuel consumption but the price volatility of carbon has been greater although the consequential cash flow has been trivial compared to that of fuel costs. Since 2018 carbon prices have increased significantly and to the extent that the procurement of emission allowances has material effects on operations. Due to the COVID-19 pandemic and the contraction of flights, the free allowances provided by the ETS will materially counter the committments for 2020. The remaining free allowance will be utilized in 2021.

Sensitivity analysis

The following table demonstrates the sensitivity of the financial instruments to a reasonably possible change in carbon prices with all other variables held constant, on profit before tax and equity. At year-end there were no open hedge positions in place:

	Effect on equity 2020	2019
Increase in carbon prices by 10%	0	542
Decrease in carbon prices by 10%	0	(542)

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 current Group strategy as reflected in its 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. The hedging policy allows for both swaps and options traded with approved counterparties and within approved limits. The Group may choose to review its hedging policy once uncertainty in its industry subsides.

The Group has restructured its pre-COVID-19 fuel hedge positions. The new hedge positions were structured in line with the Group’s expected production levels and fuel consumption at the time of restructuring, which was in July 2020. Due to continued uncertainty surrounding production levels this approach may result in higher or lower than the officially approved hedging ratio levels during the coming months. This action therefore presented a twofold deviation from the approved hedging policy, i.e. in terms of ratio (less than 40% or more than 60% of estimated usage may have been hedged in certain periods and tenure (the Group entered hedge positions further than 18 months into the future). As of 31 December the latter no longer applies. The Group has not entered any new hedge positions since July 2020.

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 2020	2019
Increase in fuel prices by 10%	2,884	12,656
Decrease in fuel prices by 10%	(2,884)	(12,656)

At year-end all open hedge positions were effective, changes in their market value are therefore confined to equity until settlement.

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Notes, contd.:

36. Financial risk management, contd.:

Currency risk

The Group is exposed to cash flow and balance sheet currency risk on sales, purchases, trade and other receivables, short term investments, cash and cash equivalents, secured bank loans and trade payables 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 9-12 months cash flow currency exposure is hedged 50-80% with spot and forward contracts. The COVID-19 pandemic has however temporarily changed both the cash flow and the balance sheet exposure. The share offering 2020 was conducted in ISK and therefore the ISK short 12 month cash flow position has shifted to a long position. As a result ISK denominated financial assets are more dominant than before. A gradual conversion back to pre-COVID-19 exposures is assumed in the 2021 budget.

Exposure to currency risk

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

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

2019	ISK	EUR	GBP	DKK	SEK	CAD
Receivables / payables, net	47,050	(1,441)	(4,979)	(763)	(304)	366
Cash and cash equivalents	2,765	48,747	7,253	6,215	3,113	7,570
Secured bank loans	(32,339)	(65,184)	0	0	0	0
Lease receivables	0	0	757	0	0	0
Lease liabilities	(7,940)	(287)	(1,604)	(252)	0	0
Forward exchange contracts ...	106,307	(15,328)	(13,453)	(14,299)	(20,514)	(32,707)
Net statement of financial position exposure	115,843	(33,493)	(12,026)	(9,099)	(17,705)	(24,771)
Next 12 months forecast sales	256,686	227,704	40,114	25,173	26,409	77,662
Next 12 months forecast purchases	(457,353)	(128,775)	(21,246)	(8,395)	(2,822)	(12,738)
Capex thereof	(23,210)	(3,032)	(123)	0	0	0
Net 12 months currency exposure	(84,824)	65,436	6,842	7,679	5,882	40,153

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Notes, contd.:

36. Financial risk management, contd.:

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

	Average rate		Year-end spot rate	
	2020	2019	2020	2019
ISK	0.0074	0.0081	0.0078	0.0082
EUR	1.14	1.12	1.23	1.12
GBP	1.28	1.28	1.36	1.32
CAD	0.75	0.76	0.79	0.77
DKK	0.15	0.15	0.17	0.15
SEK	0.11	0.11	0.12	0.11

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
2020			
ISK	(7,109)	3,058	(4,051)
EUR	393	5,010	5,402
GBP	0	26	26
DKK	264	(21)	243
SEK	245	(0)	244
CAD	377	(121)	256
2019			
ISK	2,715	(763)	1,952
EUR	1,226	1,453	2,679
GBP	1,076	(114)	962
DKK	1,144	(416)	728
SEK	1,641	(225)	1,416
CAD	2,617	(635)	1,982

A 10% weakening of the USD against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Interest rate risk is the potential that a change in market interest rates will reduce the value of a bond or other fixed-rate instruments. The fair value of a fixed rate instrument and the cash flow of a variable rate instruments will fluctuate with changes in market interest rates. The Group follows a policy of hedging 40-80% of the net interest rate cash flow exposure of long-term financing 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:

	Carrying amount	
Fixed rate instruments	2020	2019
Commodity derivatives and forward exchange contracts	(17,772)	557
Interest rate swaps	(78,096)	(95,899)
	(95,868)	(95,342)
Variable rate instruments		
Financial assets	159,108	234,818
Financial liabilities	(273,750)	(355,889)
	(114,642)	(121,071)

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Notes, contd.:

36. Financial risk management, contd.:

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.

31 December 2020	100 bp increase	100 bp decrease
Commodity derivatives and forward exchange contracts	113	(115)
Interest rate swaps	2,438	(2,563)
Fair value sensitivity (net)	2,551	(2,678)
31 December 2019		
Commodity derivatives and forward exchange contracts	(4)	4
Interest rate swaps	2,994	(3,147)
Fair value sensitivity (net)	2,990	(3,143)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts stated below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

31 December 2020	100 bp increase	100 bp decrease
Variable rate instruments	(917)	917
Cash flow sensitivity (net)	(917)	917
31 December 2019		
Variable rate instruments	998	(998)
Cash flow sensitivity (net)	998	(998)

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. Due to the COVID-19 pandemic, this exposure was revalued in Q1 2020 and materially downgraded thus rendering a large proportion of the financial instruments ineffective. The revaluation was based on a new business forecast which included the estimated fuel consumption during the tenor of the open positions. The rebalancing of exposure is based on partial discontinuation. The remaining effective hedge instruments reflect 60% of the revised exposure in line with the Group's hedging policy. As part of the Group's financial restructuring a large part of the outstanding fuel hedges were closed in Q3 2020, with the remaining positions rolled forward and spread out over the next 24 months therefrom. Following the restructuring all outstanding fuel hedges are effective.

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Notes, contd.:

36. Financial risk management, contd.:

Following table shows effective and ineffective hedges:

31.12.2020	Closed YTD	1-6 months	7-12 months	> 13 months	Total
Fuel		(4,621)	(5,835)	(6,100)	(16,555)
Currency		(1,301)	0	0	(1,301)
Interest rate swap		(611)	(759)	(1,511)	(2,881)
Margin accounts		522	1,271	1,653	3,446
Total derivatives, Payable		(6,011)	(5,323)	(5,958)	(17,291)
Tax		1,177	1,319	1,522	4,017
Derivatives used for hedging, Equity		(5,356)	(5,275)	(6,089)	(16,720)
Ineffective fuel derivatives, P&L	(32,574)	0	0	0	(32,574)

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 values

The fair value of financial assets and liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

	Carrying amount 2020	Fair value 2020	Carrying amount 2019	Fair value 2019
Derivatives used for hedging	(17,291)	(17,291)	320	320
Unsecured bond issue	0	0	(12,366)	(12,366)
Secured loans	(263,588)	(279,654)	(308,920)	(319,389)
Warrants	(27,764)	(27,764)	0	0
Lease liabilities	(146,597)	(146,597)	(158,453)	(158,453)
Total	(455,240)	(471,306)	(479,419)	(489,888)

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Notes, contd.:

37. Financial instruments and fair values, contd.:

Fair value hierarchy:

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

31 December 2020	Level 1	Level 2	Level 3	Total
Financial liabilities				
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)
31 December 2019				
Financial assets				
Derivatives used for hedging		1,881		1,881
	0	1,881	0	1,881
Financial liabilities				
Unsecured bond issue			(12,366)	(12,366)
Secured loans			(319,389)	(319,389)
Lease liabilities			(158,453)	(158,453)
Derivatives used for hedging		(1,561)		(1,561)
	0	(1,561)	(490,208)	(491,769)

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 values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entities and counterparties when appropriate.

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Notes, contd.:

38. Capital commitments

In 2013, the Group and the Boeing Company signed an agreement for the purchase of sixteen Boeing 737 MAX8 and MAX9 aircraft with an option to purchase an additional eight aircraft. The Group has taken delivery of six aircraft.

In December 2018 the Group secured a Pre-Delivery Payment (PDP) financing agreement with BOC Aviation (BOCA) for eleven undelivered B737 MAX aircraft. The agreement with BOCA secured financing of PDP's for all undelivered aircraft under the Boeing agreement, as well as a sale and leaseback of two aircraft, of which one has already been delivered with the other one to be delivered in Q2 2021.

In August 2020, the Group reached a settlement with Boeing on compensation for the damages caused by the 22 month long MAX grounding. The total number of aircraft under the purchase agreement from 2013 was reduced from sixteen to twelve, of which six aircraft remain undelivered. The PDP financing agreement with BOCA was amended accordingly and furthermore provides a backstop financing option in the form of sale and leaseback for the remaining unfinanced aircraft.

The cost of the PDP financing is capitalized with PDP payments until aircraft delivery and becomes a component of the final purchase cost of the aircraft. The accrued financing cost of PDPs for the four cancelled MAX aircraft under the Boeing settlement, USD 3.8 million in total, has been expensed as finance cost.

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

	Q2 2021	Q4 2021/ Q1 2022	Total
Boeing 737 MAX8	1	2	3
Boeing 737 MAX9	2	1	3
Total	3	3	6

The Group has already secured financing through sale and leaseback agreements of the three aircraft that are scheduled for delivery in Q2 2021. Backstop financing option remains in place for the three remaining aircraft.

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. Salaries and benefits include contributions to pension funds.

2020 Board of Directors:	Salaries and benefits	Pension contri-bution	Incentive payments for previous year	Number of shares held at year-end thousands
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 executives of Group companies *	1,860.7	305.0		60,111

Shares held by management and directors includes shares held by companies controlled by them.

Gender ratio for key employees (male / female)	64/36

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

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Notes, contd.:

39. Related parties, contd.:

2019 Board of Directors:	Salaries and benefits	Pension contri-bution	Incentive payments for previous year	Number of shares held at year-end thousands
Úlfar Steindórsson, Chairman	79.1	9.1		12,240
Ómar Benediktsson, Vice Chairman	60.0	8.1		10,765
Svafa Grönfeldt	35.7	4.1		
Guðmundur Hafsteinsson	43.9	5.1		
Heiðrún Emilía Jónsdóttir	56.2	7.6		400
Ásthildur Margrét Otharsdóttir, former board member	11.2	1.3		625
Key employees:				
Bogi Nils Bogason Group CEO	451.6	105.5		1,750
Eight executives of Group companies	1,833.9	304.7	106.9	1,680

Shares held by management and directors includes shares held by companies controlled by them.

Gender ratio for key employees (male / female) 66/33

There were no stock option contracts open at the end of the year 2019 and 2020.

Transaction with associates

The Group purchased and sold services to associates for immaterial amounts in 2020 and 2019. At year end, the Company had a long term receivable on its associate Lindarvatn amounting to USD 13.3 million. Recognized revenues from the Group's associate Cabo Verde Airlines amounted to USD 11.4 million.

Transaction with shareholders

There are no shareholders with significant influence at year end 2020. Companies which members of the Board and key employees control have been identified as being twenty seven. These companies have been identified as related. Transactions with them where immaterial in 2020.

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 2012-13 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 2012-2013.

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.

Consolidated Financial Statements of Icelandair Group hf. 2020 50 Amounts are in USD thousand

Notes, contd.:

41. Group entities

The Company held seven subsidiaries at year end 2020 which are all included in the Consolidated Financial Statements. The subsidiaries at year end are as follows:

	Ownership interest 2020	2019
Passenger and cargo operations		
A320 ehf.	100%	100%
IceCap Insurance PCC Ltd.	100%	100%
Iceeignir ehf.	100%	100%
Icelandair ehf. *	100%	100%
Other Group entites		
Loftleiðir - Icelandic ehf.	100%	100%
FERIA ehf. (VITA)	100%	100%
Iceland Travel ehf.	100%	100%

* Icelandair Cargo ehf. and Flugfélag Íslands ehf. (Air Iceland Connect) are subsidiaries of Icelandair ehf.

The subsidiaries further own ten subsidiaries that are also included in the Consolidated Financial Statements. Three 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:

Some entities within the Group were eligible to apply for reduction of employees' notice period salary payments in accordance with Icelandic Act No. 50/2020. The Group's total reduction amounted to USD 28.3 million which have been accounted for according to IAS 20 net of related expenses.

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 2.6 million.

On 18 March 2020 ISAVIA, the operator of Keflavík Int'l Airport, notified all airlines operating year-round flights from Keflavík that the company would apply a temporary 100% discount to airport service fee due to the pandemic. The discount was applied from 13 March until 31 July and amounts to USD 2.6 million.

From the end of March 2020 and until the end of May 2020, the employment ratio of the vast majority of employees was significantly reduced. During this time the affected employees were eligible for special unemployment benefits to make up for the drop in salary income. This special unemployment benefit program was funded through the national social security system, payable directly to the affected employees and is thus not accounted for in the Group's financial statements.

As part of its COVID relief efforts the government offered deferral of up to three months' payroll tax payments in the spring of 2020. This was a general relief measure available to all companies in Iceland that met the associated criteria. The payments were initially deferred until January 2021 but the deferral period has now been extended until summer 2021. The due dates of the deferred obligations are now scheduled for June, July and August 2021.

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Notes, contd.:

43. Restructuring

The financial restructuring of the Group was finalized on 18 September 2020 and was based on four main components:

Firstly, the Group renegotiated new long-term collective wage agreements with its flight operation unions. All agreements are now valid until Q3/Q4 2025. The new agreements bring about rate reductions as well as work rule changes that are estimated to reduce steady-state costs by 20% per annum for pilots and cabin crew and 10% per annum for mechanics.

Secondly, agreements were made with the Group's lenders, lessors and major vendors that secure payment and payment holidays for up to 24 months. Large vendors agreed to permanent rate reductions and/or volume changes on previously committed purchases. Most meaningful are changes to the Boeing 737 MAX orderbook where the commitment was reduced from ten aircraft to six. Boeing additionally agreed to a non-disclosed amount of restitution to compensate for financial losses incurred due to the MAX grounding. The overall liquidity improvement realized during the minimal operation period is estimated to be around USD 450 million.

Thirdly, the Company sold ISK 23,000 million (approx. USD 169 million) new shares in a public share offering at the price of ISK 1.0 per share. All investors that purchased shares in the offering further received issued warrants equal to 25% of the nominal amount of new shares purchased. The warrants can be exercised at three pre-determined dates over the next two years at a strike price of ISK 1.0 per share plus 15% annual interest. If exercised in full the warrants can therefore raise up to ISK 5,750 million in additional equity.

Finally, following the successful execution of the above, the Icelandic Government agreed to extend a back-stop credit facility in the amount of USD 120 million. The facility that is arranged by two local commercial banks is 90% guaranteed by the government.

44. Events after the reporting period

On 19 January 2021, the Group decided to initiate a process to sell Iceland Travel. From that date, Iceland Travel will be classified as asset held for sale.

Iceland Travel's main figures were as follows:

Statement of Comprehensive Income	2020	2019
Revenue	8,621	69,420
EBIT	(3,853)	1,726
(Loss) profit for the year	(2,877)	1,508

Balance Sheet	31.12.2020	31.12.2019
Assets	4,126	10,322
Equity	(272)	2,636
Liabilities	4,397	7,686

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Notes, contd.:

45. Restatement of comparison amounts

Comparison amounts for the year 2019 were restated as follows:

Travel and other employee expenses have been restated from Salaries and salary related expenses to Other operating expenses.

Statement of Comprehensive Income	2019 as reported	2019 restated
Salaries and salary related expenses	489,828	429,308
Other operating expenses	308,236	368,756

Air Iceland Connect has been restated between segments, from Other group entities into Passenger and cargo operations.

Reportable segments	Passenger and cargo operations as reported	Other entities as reported	Passenger and cargo operations restated	Other entities restated
External revenue	1,168,819	335,676	1,217,119	287,376
Inter-segment revenue	116,962	12,746	119,904	9,804
Segment revenue	1,285,781	348,422	1,337,023	297,180
Depreciation and amortisation	(147,622)	(29,651)	(153,788)	(23,485)
Segment EBIT	(66,014)	26,717	(63,049)	23,752
Finance income	6,693	1,471	20,795	1,294
Finance costs	(22,717)	(11,397)	(39,759)	(8,280)
Share of profit of equity accounted investees	268	(7,622)	268	(7,622)
Reportable segment (loss) profit before tax	(81,770)	9,169	(81,745)	9,144
Reportable segment assets	1,914,092	442,851	1,987,030	369,913
Capital expenditure	239,026	30,248	240,033	29,241
Reportable segment liabilities	1,255,017	382,093	1,329,760	307,350

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Notes, contd.:

46. Ratios

The Group's primary ratios at year end are specified as follows:

	2020	2019
Current ratio	0.70	0.86
Equity ratio	0.23	0.29
Equity ratio without warrants	0.25	0.29
Intrinsic value of share capital	1.09	10.92

47. 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.

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 amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised 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.

Consolidated Financial Statements of Icelandair Group hf. 2020 54 Amounts are in USD thousand

Notes, contd.:

47. Significant accounting policies, contd.:

b. Currency exchange, contd.:

(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.

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.

Notes, contd.:

47. Significant accounting policies, contd.:

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.

47. Significant accounting policies, contd.:

e. Leases, contd:

(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.:

47. 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.

Notes, contd.:

47. Significant accounting policies, contd.:

i. Operating assets, contd.:

(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.

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.

Notes, contd.:

47. Significant accounting policies, contd.:

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 amortised 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.

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 amortised 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.

Notes, contd.:

47. Significant accounting policies, contd.:

l. Financial instruments, contd.:

Financial assets measured at amortised cost

A financial asset is measured at amortised 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 amortised cost using the effective interest method. The amortised 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 amortised 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.

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.

Notes, contd.:

47. Significant accounting policies, contd.:

l. Financial instruments, contd.:

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.

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.

Notes, contd.:

47. Significant accounting policies, contd.:

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 amortised 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.

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.

Notes, contd.:

47. Significant accounting policies, contd.:

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.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date.

q. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for treasury shares held, for the effects of all dilutive potential ordinary shares.

r. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The major revenue-earning assets of the Group is the aircraft fleet, the majority of which is registered in Iceland. Since the Group's aircraft fleet is employed flexibly across its route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

Notes, contd.:

47. Significant accounting policies, contd.:

r. Segment reporting contd.:

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.

48. Standards issued but not yet effective

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.

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

- COVID-19-Related Rent Concessions (Amendment to IFRS 16).
- 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.

Corporate Governance Statement

The framework

The Guidelines on Corporate Governance issued 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 and the guidelines and the rules for Issuers are 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.

Composition and activites of the Board of Directors and sub-committees

	Board of Directors	Audit Committee	Remunera-tion Committee	Nomination Committee	Strategy Committee
Nr. of meetings in 2020	48	6	4	5	10
Úlfar Steindórsson	x (Chairman)		x (Chairman)	x	
Guðmundur Hafsteinsson	x	x	x		
Svafa Grönfeldt	x	x			x (Chairman)
John F. Thomas	x				x
Nina Jonsson	x				x
Alexander Edvardsson		x (Chairman)			
Hjörleifur Pálsson				x (Chairman)	
Helga Árnadóttir				x	

Internal audit and risk management

The Group's Audit Committee oversees how the 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. The Group's Audit Committee is assisted in its oversight role by internal audit processes. 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 shall oversee 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. An amendment to the internal process to formally review the annual report by the audit committee in case an audit committee member will not be part of the board of the company was intended to be implemented in 2020 but the implementation is on the agenda in 2021. 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 six meetings in 2020.

Audit Committee members:
Alexander Edvardsson, Chairman
Guðmundur Hafsteinsson
Svafa Grönfeldt

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.

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 are aligned with the long-term interests of the 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.

Remuneration Policy Execution - Checks and Balances

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.

In 2019 the Remuneration Committee approved a short-term incentive program for which the Executive Committee and senior managers were eligible to participate in based on their respective roles in the organization.

The purpose of the program is to align the interests of the management with those of the 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. Without questioning the value of the management's contribution to the Company in 2020 the Remuneration Committee has decided that no payments will be made under the short term incentive plan for 2020 due to financial outcome of the year and further financial challenges resulting from the COVID-19 pandemic.

General Salary Development

The international airline and aviation industry is a very regulated and highly unionized industry 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.

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.

Corporate Governance Statement, contd.:

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 current 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.

Remuneration Committee members:

Úlfar Steindórsson, Chairman
Guðmundur Hafsteinsson

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.

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 five meetings in 2020 and furthermore had meetings with Icelandair Group's management team and the largest shareholders.

Nomination Committee members:

Hjörleifur Pálsson, Chairman
Helga Árnadóttir
Úlfar Steindórsson

Corporate Governance Statement, contd.:

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.

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 ten meetings in 2020.

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

The Board of Directors and Executive Committee

Board of Directors

Úlfar Steindórsson, Chairman

Úlfar Steindórsson is CEO and Chairman of Toyota in Iceland ehf. and Jú ehf. He was CEO of Primex ehf. in Siglufjörður from 2002 to 2004 and CEO of the New Business Venture Fund from 1999 to 2002. Úlfar is Chairman of the Board of Bílaútleigan ehf., Okkar bílaleiga ehf., Motormax and TK bílar ehf. He is Board member of Toyota in Iceland ehf., Fagkaup ehf., UK fjárfestingar ehf., Skorri ehf., Keila ehf. and My Car ehf. and a vice board member of Bláa lónið ehf. Úlfar holds a Cand. Oecon. degree from the University of Iceland and an MBA from Virginia Commonwealth University. He joined the Board of Icelandair Group on 15 September 2010.

Svafa Grönfeldt, Vice Chairman

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. She joined the Board of Icelandair Group on 8 March 2019.

Guðmundur Hafsteinsson, Board Member

Guðmundur Hafsteinsson is an investor and entrepreneur and previously lead 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. He joined the Board of Icelandair Group on 8 March 2018.

Corporate Governance Statement, contd.:

Board of Directors, contd.:

John F. Thomas, Board Member

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. In year 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. He joined the Board of Icelandair Group on 6 March 2020.

Nina Jonsson, Board Member

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 Polytechic Institute and a B.Sc. degree in Air Transport Management from the University of New Haven. She joined the Board of Icelandair Group on 6 March 2020.

Executive committee

Bogi Nils Bogason, President & CEO

Bogi Nils started his career within Icelandair Group as CFO in October 2008. He was the CFO of Askar Capital from January 2007 until he joined Icelandair Group and the CFO of Icelandic Group from 2004-2006. Bogi Nils served as an auditor and partner at KPMG in Iceland during the years from 1993-2004. Bogi Nils holds a Cand Oecon degree in Business from the University of Iceland and became licensed as a chartered accountant in 1998. He was appointed President & CEO of Icelandair Group on 4 December 2018.

Árni Hermannsson, Managing Director Loftleidir Icelandic
Birna Ósk Einarsdóttir, Chief Commercial Officer
Elísabet Helgadóttir, Chief Human Resources Officer
Eva Sóley Guðbjörnsdóttir, Chief Financial Officer
Gunnar Már Sigurfinnsson, Managing Director Icelandair Cargo
Jens Þórðarson, Chief Operating Officer
Tómas Ingason, Chief Information Officer / Chief Business Development Officer

Board of Directors

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 48 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 2020.

Non-Financial Reporting

Business Model

The heart of the Icelandair Group's business model is the international route network and the unique geographical location of Iceland which serves as a connecting hub between Europe and North America, creating sustainable value for the Company's shareholders and other stakeholders. During 2020, Icelandair Group's strategy was further aligned to the Company's increased focus on its core business, aviation. Furthermore, the importance of Iceland as its hub and home was reinforced. 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 four 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" and operating an "agile and sustainable network."

Icelandair Group's approach to corporate responsibility

Aviation connects people, cultures and facilitates international relations, business and transport. For an island located in the middle of the North Atlantic, aviation is fundamental to connect to the world and maintain a good quality of life. As the leading airline in Iceland and an important employer, Icelandair Group takes its responsibility towards all its stakeholders, such as its employees, customers, shareholders, the environment, society and the Icelandic economy, seriously.

Icelandair Group's strategy in corporate responsibility is based on the United Nations' Sustainable Development Goals (SDGs). These goals have become a universal language of governments and businesses to work towards a more sustainable future. The Company issues an annual report where its corporate responsibility information is presented in accordance with the Global Reporting Initiatives (GRI) standards – core level, and with reference to Nasdaq's ESG Reporting Guide. Specific targets have been set for the Company's key focus areas in corporate responsibility 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 corporate responsibilities according the ESG Reporting Guide – Environment, Society and Governance.

Non-Financial Reporting, contd.:

The effects of Covid-19 on operations in 2020

The aviation and tourism industries have been heavily affected by the COVID-19 pandemic. Icelandair Group has taken its important role as the lead airline in Iceland seriously during the pandemic, keeping vital air routes open both for passenger and cargo transport. However, drastic measures had to be taken to adjust to the situation. The focus was both on short- and long-term measures. The objective was to get the Company through an extended period of minimum operations, increase its long-term competitiveness and at the same time protect as many jobs as possible. Health and safety of employees and customers has been at the forefront during this time, with extensive measures taken across the Company and on board its aircraft. Service to customers shifted from sales and services to finding solutions for passengers – for the ones that needed to travel as well as the ones that requested a refund or travel credit. Incoming passenger requests for changes to their bookings or information multiplied and great effort was put into developing effective technical solutions to shorten response times.

Environment

Icelandair Group is an environmentally-conscious company with a high standard for safe and responsible aviation and it is dedicated to minimising the environmental impact of its operations. The Company recognises the influence that air travel has on the environment 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 certification 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

The Company's formal Environmental policy is as follows:Minimizing the environmental impact of our operations is an important part of Icelandair Group's business plan.
We are focused on keeping Icelandair Group green by employing sustainable practices and optimal use of resources at our disposal.
In addition to compliance with applicable laws and regulations, the Company demonstrates its commitment to this policy through:

- Minimising carbon footprint and raising awareness
- Reducing waste by increasing recycling
- Promoting responsible use of resources
- Increasing the use of environmentally friendly products and services

Icelandair Group is committed to supporting continuous improvements by setting measurable targets, raising awareness and benchmarking performance.

Emissions

Icelandair adheres to the goals IATA has set to address the global challenge of climate change and monitors accordingly fuel efficiency and CO_2 emissions from flight and ground operations. To achieve the goals Icelandair has set targets for reducing emissions to 2025.

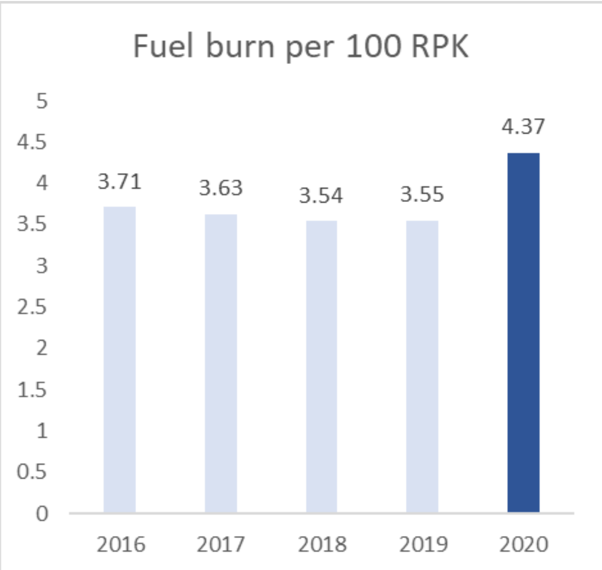
- 20% reduction of CO_2 emissions from flight operations (relative to OTK, operational tonne kilometres, 2015-2025)
- 40% reduction of CO_2 emissions from ground vehicles

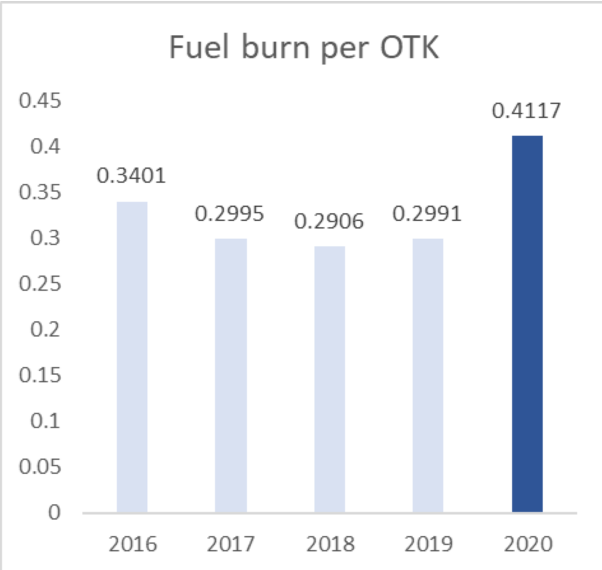
Non-Financial Reporting, contd.:

Emissions, contd.:

Icelandair Group grew tremendously over the past decade. The increase in the number of passengers and amount of cargo, the constant growth of the route network, as well as the expansion of the Company's fleet are all factors that affect and increase the total emissions. However, in 2020 the Company was heavily impacted by the global pandemic, like the airline and tourism industries as a whole. As travel restrictions were put in place around the world, travel demand almost dropped completely and Icelandair Group's route network was consequently drastically reduced. A large part of Icelandair Group's fleet was put in storage as a result. Evidently, the total emissions for the year 2020 dropped significantly compared to previous years. The Company, however, focused on meeting demand for cargo transport, protecting important export from Iceland and importing necessities to the country. All available cargo space in the passenger aircraft was utilised and additional flights set up with special cargo aircraft. In addition, the interior was removed from six passenger aircraft to participate in transporting medical equipment from China to Europe and North America. The Company also took on special projects in assisting stranded passengers all around the world through its leasing operations, Loftleidir Icelandic. The total emissions from aviation in 2020 were 347,372 tCO2e, a reduction of 74% compared to the previous year.

Even though the total emissions from aviation have dropped significantly, the Company measures fuel efficiency in fuel burn per 100 revenue passenger kilometres (RPK) and fuel burn per operational tonne kilometre (OTK). These benchmarks take into consideration the number of passengers on board and the amount af cargo. The results for fuel burn are impacted by the reduced number of passengers on each route and less amount of cargo. In addition, the continued suspension of the Boeing 737-MAX aircraft, which are more fuel-efficient than Icelandair's current fleet, also have an impact throughout the year.





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.

	Amount of waste	Sorted waste	General waste
2020	535 tons	43%	57%
2019	2450 tons	40%	60%

The events of the year and the decrease in travel demand have had the side effects that the amount of waste generated from the Company is considerably less than in previous years, just about 20% of the amount in a normal operating year. To respond to the situation, the Company has, in co-operation with its waste service provider, changed the frequency of the waste collection to eliminate unneccesary trips with empty waste containers.

Non-Financial Reporting, contd.:

Noise

Aircraft noise is a significant part of the environmental issues associated with aviation, impacting communities and habitats in the vicinity of airports. This noise is mainly caused by engines but also aerodynamic noise. Requirements have been set by the International Civil Aviation Organization (ICAO) and the European Union Safety Association (EASA) to minimize the effect caused to the surrounding. Icelandair complies with these limitation and guidelines and Icelandair's fleet is in the progress of being modernized with newer airplanes that create less noise than older models. Procedures have been adapted to reduce environmental effect and close cooperation with local communities has had a positive impact in reducing noise pollution. With almost no air traffic in 2020 noise pollution was not a significant environmental issue to monitor during the year.

Carbon Compensation

Icelandair and Air Iceland Connect have offered passengers the option to offset the carbon footprint of their air travel since September 2019 and contributions from passengers in 2019 funded planting for approximately 5500 trees. Even though the year 2020 has been extraordinary, passengers are still participating in the compensation of their carbon footprint and have 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

During the pandemic the Company’s responsibility was to keep vital air routes open for both passengers and cargo. For an island located in the middle of the North Atlantic, aviation is fundamental for Iceland to connect to the world and maintain a good quality of life.

When the first cases were reported in Icelandair Group's markets, the world slowed down and travel restrictions were put in place, affecting travellers around the world. The Company had to quickly adjust but the geographical location of Iceland between Europe and North America allowed the Company to assist stranded passengers all around the world to get back to their home countries.

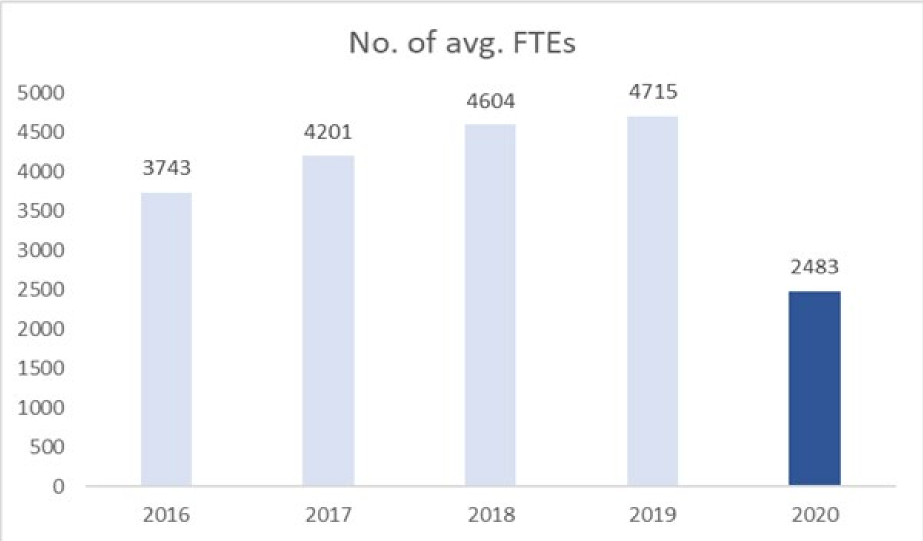
Within Iceland, Icelandair Group continued its efforts to contribute to society, with continued support of various organizations and events according to the Company's mission of "bringing the spirit of Iceland to the world." As an example, Icelandair supports Icelandic music through Iceland Airwaves 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 initiated the establishment of the Icelandic Tourism Fund a few year back, which invests in innovation in tourism. The Company also supports Iceland's main volunteer search-and-rescue team, and together with contributions from its passengers, Icelandair helps the families with children with long-term illnesses and children who live in difficult circumstances.

Non-Financial Reporting, contd.:

Employees

Icelandair Group strives to ensure that all employees experience that they are part of one team. This is crystalized in the Company's core values which are passion, simplicity and responsibility, and provide the foundation for the strong company culture at Icelandair.

In the light of the global pandemic, drastic measures had to be taken to adjust the Company to almost a total drop in travel demand and an extended period of minimum operations. These measures unfortunately affected more than two thousand valued employees.



Health and safety

General health and well-being of Icelandair Group employees is a priority where the Company endeavours towards 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 the 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. Adjacent to this the Company has a service agreement with Health Protection Service (Heilsuvernd) on confidential medical services ensuring employee's access to health care.

When the pandemic hit the world extreme measures were taken to ensure the health and safety of Icelandair Group employees. Special preventive arrangements were made to ensure the safety of frontline employees and at other working areas a tightened prohibition of mass gatherings called for total reorganization of ways of working and most of office employees worked remotely. Necessary changes were made 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 workplace was divided up according to the rules of maximum number of people at any given time and with no or limited contact between departments.

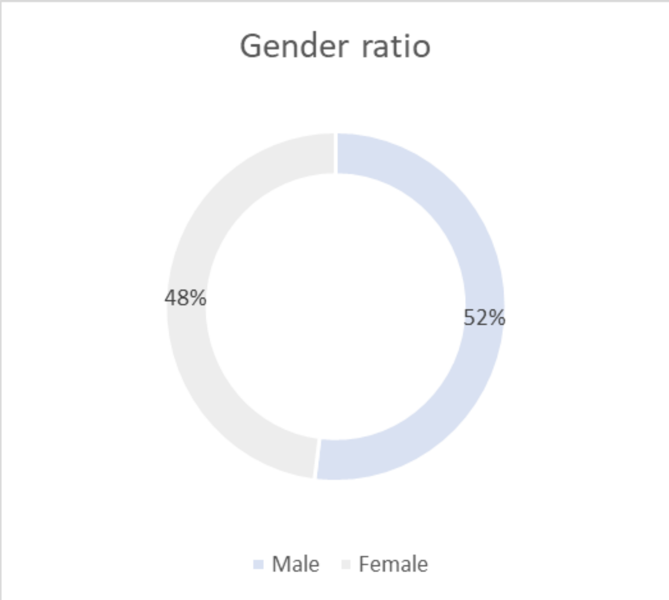
The Company provided necessary support in remote working by providing extra office equipment, practical training on good ergonomic habits and gave regular advice on how to maintain good work-life balance. Leadership team was dedicated on being in regular communication with all employees and ensured good information flow.

During 2020 it was clearly demonstrated that teamwork and flexibility are the core of the company culture at Icelandair Group. The Company is proud of how its team of people has adapted to new working conditions.

Non-Financial Reporting, contd.:

Equal Rights

One of Icelandair Group's main focus areas in corporate responsibility 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 Equal Rights Policy and Equal Rights Plan which has been approved by the Executive Committee.
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.



Gender equality objectives for 2025

The international Air Transport Association (IATA) introduced a special equality project for airlines in 2019 called "25by25". The aim of this project is to bring the proportion of the gender that is underrepresented in management and flight-related roles to 25% or improve the current status by 25%. Icelandair has set targets in line with these goals about gender equality in management positions, pilot positions, cabin crew positions and aircraft maintenance technicians jobs.

Objectives for 2025

- Never less than 40% of either gender 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

The year 2020 was unprecedented in aviation history. With minimum operations for an extended period of time and extensive measures taken during the year that affected many of Icelandair Group's employees, the implementation of this project was put on hold. Achieving gender equality across the Company's operations, however, remains one of the Company's core focus areas when it comes to corporate responsibility. The Company will continue its efforts towards its long-term goals in this area as soon as operations have returned to normal again.

Non-Financial Reporting, contd.:

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. Four companies within Icelandair Group, Icelandair, Icelandair Cargo, Air Iceland Connect and Iceland Travel, had been certified by a third party and received Equal pay certification in 2019. Due to the pandemic Iceland Travel has not been recertified in 2020 and Air Iceland Connect is being implemented into Icelandair and therefore not recertified. Icelandair and Icelandair Cargo have been audited in 2020 and passed the audit.

Responsible Business

In 2020 the Company continued to work to centralise and improve procurement functions across all its operations as responsible procurement has been identified as a material issue for Icelandair Group. The Company has identified targets in relations to procurement and to ensure a repsonsbile supply chain.

- By end-2020, top 100 suppliers have gone through risk screening model and actions have been taken to act on the assessment
- By end-2021, Supplier Code of Conduct will be integrated in all business contracts
- By end-2021, all significant suppliers have gone through risk screening model and actions have been taken to act on the assessment

All critical domestic suppliers have received and signed Icelandair Group's Supplier Code of Conduct. As of 2020, Icelandair's Supplier Code of Conduct is an integral part of all new and renewed contracts. Processes in risk evaluation of suppliers are being developed and will be implemented in 2021.

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 was mandatory for all new employees in 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.

Early 2018, Icelandair Group sharpened its policy and actions against bullying, and sexual and gender-related harassment and violence. The policy and its related actions 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.

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.

A new anti-corruption and bribery policy was established and approved by the executive management early 2020 which 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.

Non-Financial Reporting, contd.:

ESG Accounting

Environmental Metrics

E1 GhG Emissions	Units	2020	2019
Total amount, in CO2 equivalents, for Scope 1	tCO2e	355,779	1,358,972
Total amount, in CO2 equivalents, for Scope 2	tCO2e	214	515
Total amount, in CO2 equivalents, for Scope 3	tCO2e	174	695
E2 Emissions Intensity			
Total GhG emission per output scaling factor	tCO2e per USDk	0.82	0.90
	tCO2e per FTEs	143	288
	tCO2e per passenger	0.47	0.31
Fuel burn per 100 revenue passenger kilometres	l/100RPK	4.37	3.55
Fuel burn per operational tonne kilometre	l/OTK	0.4117	0.2991
Total non-GhG emissions per output scaling factor			-
E3 Energy Usage			
Total amount of energy directly consumed (fossil fuels)	kWh	1,474,663,115	5,547,715,498
Total amount of energy indirectly consumed (electricity and heat)	kWh	24,223,530	58,312,823
E4 Energy Intensity			
Total direct energy usage per output scaling factor	kWh per USDk	3,457	3,726
	kWh per FTEs	603,660	1,188,977
	kWh per passenger	1,965	1,272
E5 Energy Mix			
Non renewable energy (fossil fuels aret he primary energy source)	%	98%	99%
Renewable energy	%	2%	1%
E6 Water Usage			
Total amount of water consumed	m3	330,923	908,788
Total amount of water reclaimed	m3	-	-
E7 Environmental Operations			
Does your company follow a formal Environmental Policy	Yes/No	Yes	Yes
Does your company follow specific waste, water, energy, and/or recycling policies	Yes/No	Yes	Yes
Does your company use a recognized energy management system	Yes/No	No	No
E8 Climate Oversight / Board			
Does your Board of Directors oversee and/or manage climate-related risks	Yes/No	No	No
E9 Climate Oversight / Management			
Does your Senior Management Team oversee and/or manage climate-related risks	Yes/No	No	No

Non-Financial Reporting, contd.:

Environmental Metrics, contd.:

E10 Climate Risk Mitigation	Units	2020	2019
Total amount invested, annually, in climate-related infrastructure, resilience, and product development		-	-

Social data metrics

S1 CEO Pay ratio	Units	2020	2019
CEO total compensation to median FTE total compensation	ratio	4.58	6.25
Does your company report this metric in regulatory filings	Yes/No	Yes	No
S2 Gender Pay Ratio			
Median male compensation to median female compensation (basic earnings)	%	-0.93%	0.24%
Median male compensation to median female compensation (regular earnings)	%	2.86%	1.87%
S3 Employee Turnover			
Year-over-year change for full-time employees	%	69%	16%
S4 Gender Diversity			
Total enterprise headcount held by men and women	women/men%	48/52	53/47
Entry- and mid- level positions held by men and women	women/men%	-	-
Senior- and executive-level positions held by men and women	women/men%	38/62	33/67
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 toal 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	
If yes, does your child and/or forced labor policy also cover suppliers and vendors	Yes/No	Part of SCoC	

Non-Financial Reporting, contd.:

Social data metrics, contd.:

S10 Human Rights	Units	2020	2019
Does your company follow a human rights policy	Yes/No	Yes	Yes
If yes, does your human rights policy also cover suppliers and vendors	Yes/No	Yes	Yes

Governance Metrics

G1 Board Diversity			
Total board seats occupied by women (as compared to men)	%	40%	40%
Committee chairs occupied by women (as compared to men)	%	25%	33%
G2 Board Independence			
Does company prohibit CEO from serving as board chair	Yes/No	Yes	Yes
Total board seats occupied by independants	%	100%	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%	99%
G5 Supplier Code of Conduct			
Are your vendors or suppliers required to follow a Code of Conduct	Yes/No	Yes	No
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	
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	No	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

Non-Financial Reporting, contd.:

Governance Metrics, contd.:

G10 External Assurance	Units	2020	2019
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 which can be found on the Company's website https://www.icelandairgroup.is/about/responsibility/.

The non-financial information represented for 2020 does not include Icelandair Hotels.

Operational Risk

Overview

The Group considers the following to be its main operational risks:

- regulatory risk
- technological risk
- macroeconomic and competition risk
- reputational risk
- labor market risk
- acute risk

a. Regulatory risk

Government regulations on environmental protection such as targets for carbon dioxide emissions are a growing issue for the airline industry. 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 regarding 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.

b. Technical risk

The Company's operations are dependent on IT and other systems. Failure or disruption to IT or management systems, whether internal or external, could affect the Company’s ability to carry out its business operations and services to its customers. Many factors that can cause such systems to fail are outside the Company's control.

Icelandair Group makes every effort to minimize the risk of disruption with the aim of securing the Company's business continuity. Among measures that the Company has in place are documented procedures regarding access to information and other systems, the back-up and storing of data, remote access via virtual private network clients and the disposal of confidential or otherwise sensitive material. Virus protection for all computers and servers are centrally managed, internet connectivity is secured by firewalls and web security gateways, and all services open for external usage are secured by an application firewall. The Company offers regular seminars to its employees to guard against fraud and phishing e-mail attempts.

The Company collects and retains personal information received from customers and is therefore subject to the EU's General Data Protection Regulation (EU) 2016/679 (“GDPR”) aimed at protecting personal data held by businesses and other organizations. These requirements include but are not limited to implementing certain policies and processes, developing an effective internal data protection management system and appointing a data protection officer. If found non-compliant to the GDPR regulators can, determined by the level of the infringement, levy fines of up to 4% of a company’s annual worldwide turnover.

The Executive Committee considers the Company to be GDPR compliant.

Operational Risk, contd.:

c. Macroeconomic and competition risk

General macroeconomic risks such as slowing economic growth, changes in interest rates, fluctuations in exchange rates, employment levels and inflation, whether globally or locally, can adversely affect the Company's operations.

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 an attractive value propositions to its customers

d. Reputational risk

The Group is subject to various risks that can lead to disruptions and interruptions to flight schedules. These include computer faults, accidents, labor unrest, weather conditions, delays by service providers, congestion, and unexpected maintenance. Additionally, increased focus on ESG factors requires the Company to address its environmental 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.

Icelandair Group 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 is committed to implementing an emission mitigation scheme in line with CORSIA, 21 where the aim is to address annual increase in total CO2 emissions, and thus contributing to the industry’s aspiration to carbon neutral growth from 2020.

e. 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 so as to foster a culture of mutual respect and understanding.

f. Acute risk

Demand for airline travel is highly vulnerable to events outside the Company's control such as natural disasters, terrorist attacks and pandemics. Natural disasters can include large-scale floods, earthquakes, hurricanes or volcanic eruptions that cause disruptions to flight schedules that in extreme cases can lead to prolonged suspension of certain routes and closure of airports. Terrorist attacks such as those that transpired on 9/11 are examples of events that would impact demand as well as the future operational environment and regulatory burden of airlines. Finally, outbreaks of easily communicable diseases can affect airlines such as clearly demonstrated by the current COVID-19 pandemic, and before that the SARS (Severe Acute Respiratory Syndrome) in 2003, the Bird flu pandemic in 2007 and 2008, the Swine flu pandemic in 2009.

The acute nature of these events limits the Company's ability to mitigate the associated risks. Nonetheless, the Company has in previous such crisis demonstrated a high level of flexibility and resilience that has allowed the Company to withstand such demand shocks. The Company further has in place safety measures, emergency response protocols and working procedures that prioritizes the safety and security of its passengers and staff.

Quarterly statements (unaudited)

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

Year 2020	Q1	Q2 Restated	Q3	Q4	Total
Operating income	208,981	60,807	103,581	60,222	433,591
Operating expenses excluding depreciation	(257,585)	(98,331)	(70,661)	(93,508)	(520,085)
Operating (loss) profit bef. depr. (EBITDA)	(48,604)	(37,524)	32,920	(33,286)	(86,494)
Depreciation, impairment	(159,872)	(60,232)	(29,454)	(26,943)	(276,501)
Operating (loss) profit (EBIT)	(208,476)	(97,756)	3,466	(60,229)	(362,995)
Net finance	(56,579)	18,222	12,545	(21,604)	(47,416)
Share of profit (loss) of associates	698	(12,333)	(638)	(15,150)	(27,423)
(Loss) profit before income tax (EBT)	(264,357)	(91,867)	15,373	(96,983)	(437,834)
Income tax	24,132	1,046	22,778	13,702	61,658
(Loss) profit	(240,225)	(90,821)	38,151	(83,281)	(376,176)
Other comprehensive profit (loss)	(51,047)	18,012	(14,162)	14,559	(32,638)
Total comprehensive (loss) income	(291,272)	(72,809)	23,989	(68,722)	(408,814)
Net cash from (used in) operating activities	77,380	(96,789)	(88,260)	(85,550)	(193,219)
Net cash (used in) from investing activities	(34,752)	45,264	(32,986)	20,195	(2,279)
Net cash from financing activities	(59,743)	(9,680)	158,472	(9,390)	79,659

Year 2019	Q1	Q2 Restated	Q3	Q4	Total
Operating income	248,602	402,767	533,943	319,183	1,504,495
Operating expenses excluding depreciation	(270,594)	(382,630)	(406,314)	(306,981)	(1,366,519)
Operating (loss) profit bef. depr. (EBITDA)	(21,992)	20,137	127,629	12,202	137,976
Depreciation	(37,587)	(44,241)	(46,561)	(48,884)	(177,273)
Operating (loss) profit (EBIT)	(59,579)	(24,104)	81,068	(36,682)	(39,297)
Net finance income (expense)	(9,294)	(8,982)	(4,150)	(3,524)	(25,950)
Share of profit (loss) of associates	405	(7,420)	(450)	111	(7,354)
(Loss) profit before income tax (EBT)	(68,468)	(40,506)	76,468	(40,095)	(72,601)
Income tax	13,355	6,240	(15,007)	10,234	14,822
(Loss) profit	(55,113)	(34,266)	61,461	(29,861)	(57,779)
Other comprehensive profit (loss)	9,539	(6,608)	8,546	11,469	22,946
Total comprehensive (loss) income	(45,574)	(40,874)	70,007	(18,392)	(34,833)
Net cash from (used in) operating activities	72,941	48,513	(28,619)	27,043	119,878
Net cash used in investing activities	(53,592)	(37,806)	(9,228)	(38,031)	(138,657)
Net cash from financing activities	(28,728)	(124,642)	34,389	74,041	(44,940)

Consolidated Financial Statements of Icelandair Group hf. 2020 85 Amounts are in USD thousand

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