ICELANDAIR GROUP

Icelandair Group hf.

Condensed Consolidated Interim Financial Statements

2 1 January – 30 June 2020

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

Contents

Endorsement and Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of Icelandair Group hf. for the period from 1 January to 30 June 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements (IAS 34). The Interim Financial Statements comprise the Consolidated Interim Financial Statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The Condensed Consolidated Interim Financial Statements are stated in thousands of USD.

According to the Consolidated Statement of Comprehensive Income, loss for the period from 1 January to 30 June 2020 amounted to USD 331.0 million, of which USD 224.8 million in one-off COVID-19 related items. Total comprehensive loss for the period was USD 364.1 million. Equity at the end of the period amounted to USD 118.4 million, including share capital in the amount of USD 44.2 million, according to the consolidated statement of financial position. Reference is made to the Consolidated Statement of Changes in Equity regarding information on changes in equity.

Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. The Condensed Consolidated Interim Financial Statements have not been audited or reviewed by the Company's independent auditors.

The COVID-19 pandemic is having a severe impact on the aviation and travel industries with continued uncertainty for the foreseeable future. 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.

To respond to the situation, the Group has taken extensive measures to get 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, the Group has acted swiftly and seized opportunities that the current situation has created, such as in the cargo and leasing operations. The Group's overall strategy aims at securing the continuity of necessary core operations and safeguard the flexibility needed for a quick scale-up when markets recover.

The Group is working on a financial restructuring which is aimed at ensuring strong liquidity position throughout these uncertain times and strengthening the long-term competitiveness of the Group. The Company shareholders' meeting on 22 May 2020, agreed to a proposal from the Board of Directors of Icelandair Group to increase the share capital by up to 30,000 million new shares. The authorization is valid until 1 September 2020. As part of the financial restructuring, the Company is in negotiations with stakeholders that include unions, lenders, lessors, acquirers, other vendors and Boeing. The Icelandic Government has expressed its willingness to provide a guarantee for a credit line conditioned upon the completion of the share offering.

The grounding of the MAX aircraft is an ongoing issue as the Group has six MAX aircraft on the ground and no exact date has been issued as to when their suspension will be lifted. The Group remains in discussions with Boeing regarding further compensation for the financial loss resulting from the suspension and status of the future deliveries. Currently it is uncertain when the MAX aircraft will return to service and when deliveries of the remaining ten aircraft will take place.

On 3 April 2020 the Company finalised the sale of a 75% equity share in Icelandair Hotels to Berjaya Property Ireland Limited. The Company will retain its 25% share in the hotel company at least for a period of three years. The total cash consideration for the equity was USD 45.3 million and has been paid to the Company in full against delivery of the shares.

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

According to our best knowledge it is our opinion that the Condensed Consolidated Interim Financial Statements give a true and fair view of the financial performance of the Group for the six month period ended 30 June 2020, its assets, liabilities and consolidated financial position as at 30 June 2020 and its consolidated cash flows for the period then ended.

Further, in our opinion, the Condensed Consolidated Interim Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statements of Icelandair Group hf. for the period from 1 January to 30 June 2020 and confirm them by means of their signatures.

Reykjavík, 27 July 2020.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board
Svafa Grönfeldt
John F. Thomas
Nina Jonsson
Guðmundur Hafsteinsson

CEO:

Bogi Nils Bogason

Consolidated Statement of Comprehensive Income
for the period from 1 January to 30 June 2020

	Notes	2020 Q2	2019 Q2 Restated *	2020 YTD	2019 YTD Restated *
Operating income					
Transport revenue	7	27,612	324,365	171,618	491,838
Aircraft and aircrew lease		26,893	19,197	53,588	44,317
Other operating revenue	7	6,302	59,205	44,582	115,214
		60,807	402,767	269,788	651,369
Operating expenses					
Salaries and salary related expences		52,233	120,233	132,758	217,111
Aviation expenses		31,584	165,119	122,165	263,514
Other operating expenses		14,514	97,278	100,993	172,389
	8	98,331	382,630	355,916	653,014
Operating (loss) profit before depreciation and amortisation (EBITDA)		(37,524)	20,137	(86,128)	(1,645)
Depreciation and amortisation	9	(60,232)	(44,241)	(103,946)	(82,038)
Impairment	12	(7,316)	0	(123,474)	0
Operating loss before net finance costs (EBIT)		(105,072)	(24,104)	(313,548)	(83,683)
Finance income	10	(2,003)	1,060	12,016	1,492
Finance costs	10	(5,789)	(10,042)	(25,380)	(19,768)
Gain on sale of a subsidiary		22,454	0	22,454	0
Changes in fair value of derivatives	17	3,560	0	(47,447)	0
Net finance income (loss)		18,222	(8,982)	(38,357)	(18,276)
Share of loss of associates, net of tax	21	(5,017)	(7,420)	(4,319)	(7,015)
Loss before tax		(91,867)	(40,506)	(356,224)	(108,974)
Income tax		1,046	6,239	25,178	19,594
Loss for the period		(90,821)	(34,267)	(331,046)	(89,380)
Other comprehensive loss:					
Foreign currency translation differences of foreign operations		(2,200)	(1,025)	(28,962)	(2,518)
Net profit (loss) on hedge of investment, net of tax		10,059	(1,210)	(1,441)	(5,252)
Effective portion of changes in fair value of cash flow hedge, net of tax		10,153	(4,373)	(2,632)	10,701
Other comprehensive profit (loss) for the period		18,012	(6,608)	(33,035)	2,931
Total comprehensive loss for the period		(72,809)	(40,875)	(364,081)	(86,449)
Loss attributable to:					
Owners of the Company		(90,474)	(32,034)	(322,010)	(87,230)
Non-controlling interest		(347)	(2,233)	(9,036)	(2,150)
Loss for the period		(90,821)	(34,267)	(331,046)	(89,380)
Total Comprehensive loss attributable to:					
Owners of the Company		(80,974)	(38,975)	(363,571)	(84,593)
Non-controlling interest		8,164	(1,899)	(511)	(1,855)
Total comprehensive loss for the period		(72,810)	(40,874)	(364,081)	(86,449)
Earnings per share:					
Basic earnings per share in US cent per share		(1.70)	(0.68)	(6.12)	(1.77)
Diluted earnings per share in US cent per share		(1.70)	(0.68)	(6.12)	(1.77)

* Travel and other employee expenses have been restated from Salaries and salary related expenses to Other operating expenses. Use of leased aircraft engines have been restated from Depreciation to Aviation expenses.

The notes on pages 9 to 24 are an integral part of these interim consolidation financial statements.

Interim Financial Statements of Icelandair Group hf. 30 June 2020 5 Amounts are in USD thousands

Consolidated Statement of Financial Position
as at 30 June 2020

	Notes	30.6.2020	31.12.2019
Assets			
Operating assets		551,949	630,400
Right-of-use assets		126,781	134,035
Intangible assets and goodwill	11	61,242	175,231
Investments in associates	21	23,520	25,784
Deferred cost		4,096	4,741
Receivables and deposits		18,042	44,967
Non-current assets		785,630	1,015,158
Inventories		21,665	22,689
Derivatives used for hedging		0	1,881
Trade and other receivables		129,817	124,879
Assets classified as held for sale	6	0	276,907
Cash and cash equivalents		153,625	235,073
Current assets		305,107	661,429
Total assets		1,090,737	1,676,587
Equity			
Share capital		44,199	44,199
Share premium		174,299	174,299
Reserves	13	476	45,449
Retained earnings		(99,465)	219,132
Equity attributable to equity holders of the Company		119,509	483,079
Non-controlling interest		(1,112)	(601)
Total equity		118,397	482,478
Liabilities			
Loans and borrowings	14	100,358	241,328
Lease liabilities	15	125,390	135,473
Payables		33,904	23,418
Deferred tax liabilities		0	25,679
Non-current liabilities		259,652	425,898
Loans and borrowings	14	162,239	79,958
Lease liabilities	15	23,673	22,980
Derivatives	17	32,647	1,561
Liabilities classified as held for sale	6	0	238,732
Trade and other payables		323,831	221,000
Deferred income	16	170,298	203,980
Current liabilities		712,688	768,211
Total liabilities		972,340	1,194,109
Total equity and liabilities		1,090,737	1,676,587

The notes on pages 9 to 24 are an integral part of these interim consolidation financial statements.

Interim Financial Statements of Icelandair Group hf. 30 June 2020 6 Amounts are in USD thousands

Consolidated Statement of Changes in Equity
for the period from 1 January to 30 June 2020

	Attributable to equity holders of the Company						
1 January to 30 June 2019	**Share capital**	**Share premium**	**Reserves ***	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Equity 1 January 2019	39,053	133,513	26,262	271,034	469,862	1,517	471,379
Total comprehensive loss			2,637	(87,230)	(84,593)	(1,855)	(86,448)
Share issued	5,146	40,786			45,932		45,932
Effects of profit or loss and dividend from subsidiaries			(10,810)	10,810	0		0
Equity 30 June 2019	44,199	174,299	18,089	194,614	431,201	(338)	430,863
1 January to 30 June 2020							
Equity 1 January 2020	44,199	174,299	45,449	219,132	483,079	(601)	482,478
Total comprehensive loss			(41,561)	(322,010)	(363,571)	(511)	(364,082)
Effects of profit or loss from subsidiaries			(3,412)	3,412	0		0
Equity 30 June 2020	44,199	174,299	476	(99,465)	119,509	(1,112)	118,397

* See further in note 13.

The notes on pages 9 to 24 are an integral part of these interim consolidation financial statements.

Interim Financial Statements of Icelandair Group hf. 30 June 2020 7 Amounts are in USD thousands

Consolidated Statement of Cash Flows for the six months ended 30 June 2020

	Notes	2020 Q2	2019 Q2	2020 YTD	2019 YTD
Cash flows (to) from operating activities					
Loss for the period		(90,821)	(34,267)	(331,046)	(89,380)
Adjustments for:					
Depreciation and amortisation		60,232	44,241	103,946	82,038
Impairment		7,316	0	123,474	0
Expensed deferred cost		3,891	5,103	6,731	12,217
Net finance costs		7,792	8,982	13,364	18,276
Changes in fair value of derivatives		(3,560)	0	47,447	0
Gain on sale of operating assets		(2)	4,380	(2)	(2,324)
Gain on sale of a subsidiary		(22,454)	0	(22,454)	0
Share in loss of associates		5,017	7,420	4,319	7,015
Deferred taxes		(1,046)	(6,239)	(25,178)	(19,594)
		(33,635)	29,620	(79,399)	8,248
Changes in:					
Inventories, (increase) decrease		(666)	80	734	(3,550)
Trade and other receivables, (increase) decrease		(36,704)	21,296	9,309	(42,211)
Trade and other payables, (decrease) increase		(130,377)	17,064	96,941	43,372
Deferred income, increase (decrease)		109,342	(9,958)	(34,672)	130,552
Cash generated (to) from operating activities		(58,405)	28,482	72,312	128,163
Interest received		287	397	663	854
Interest paid		(5,036)	(9,986)	(12,985)	(15,811)
Net cash (to) from operating activities		(96,789)	48,513	(19,409)	121,454
Cash flows from (used in) investing activities:					
Acquisition of operating assets		(3,280)	(30,426)	(27,319)	(202,503)
Proceeds from sale of operating assets		8	94	8	151,036
Deferred cost		(1,781)	(5,873)	(5,380)	(14,341)
Acquisition of intangible assets		(7,368)	(556)	(7,709)	(1,588)
Proceeds from sale of a subsidiary		45,312	0	45,312	0
Investment in associates	21	0	0	0	(1,462)
Non-current receivables, change		12,373	1,856	10,520	(6,825)
Cash attributable to assets held for sale	6	0	(2,901)	(4,920)	(15,715)
Net cash from (used in) investing activities		45,264	(37,806)	10,512	(91,398)
Cash flows used in financing activities:					
Shares issued		0	45,932	0	45,932
Proceeds from non-current borrowings		0	0	0	79,799
Repayment of non-current borrowings		(3,980)	(131,453)	(12,609)	(220,393)
Repayment of lease liabilites		(5,700)	(9,375)	(14,556)	(15,826)
Repayment of short term borrowings		0	(29,746)	(42,258)	(42,882)
Net cash used in financing activities		(9,680)	(124,642)	(69,423)	(153,370)
Decrease in cash and cash equivalents		(61,205)	(113,935)	(78,320)	(123,314)
Effect of exchange rate fluctuations on cash held		1,211	(134)	(3,128)	(1,195)
Cash and cash equivalents at beginning of the period		213,619	289,020	235,073	299,460
Cash and cash equivalents at 30 June		153,625	174,951	153,625	174,951
Investment and financing without cash flow effect:					
Acquisition of right-of-use assets		(357)	(3,759)	(5,295)	(108,216)
New or renewed leases		357	3,759	5,295	108,216

The notes on pages 9 to 24 are an integral part of these interim consolidation financial statements.

Interim Financial Statements of Icelandair Group hf. 30 June 2020 8 Amounts are in USD thousands

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The Condensed Consolidated Interim Financial Statements of the Company as at and for the six months ended 30 June 2020 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group's interests in associates. The Group primarily operates in the airline and tourism sectors. The Company is listed on Nasdaq Iceland.

The Group's Consolidated Financial Statements as at and for the year ended 31 December 2019 are available upon request from the Company's registered office at Reykjavíkurflugvöllur in Reykjavík, Iceland or at its website address, www.icelandairgroup.is and at The Icelandic Stock Exchange website, www.nasdaqomx.com

2. Basis of accounting

The Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for Consolidated Financial Statements of listed companies. These Interim Financial Statements have been prepared in accordance with IAS 34, Interim Financial Reporting. Interim Consolidated Financial Statements have been prepared under the historical cost convention, except for financial assets and liabilities, which are valued at fair value through other Comprehensive Income. They do not include all the information requred for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual Consolidated Financial Statements as at and for the year ended 31 December 2019.

The accounting policies and methods of computation applied in these Consolidated Interim Financial Statements are the same as those applied by the Group in its Consolidated Financial Statements as at and for the year ended 31 December 2019.

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

These Interim Financial Statements were approved for issue by the Board of Directors on 27 July 2020.

These Consolidated Interim Financial Statements are prepared on a going concern basis. Despite substantial uncertainty, described further in the Endorsement and Statement of the Board of Directors and the CEO, the board believes that it is appropriate to prepare these Consolidated Interim Financial Statements on a going concern basis because of planned action and actions already taken to strengthen the Group's financial standing and liquidity.

3. Use of judgements and estimates

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

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 Interim Financial Statement, the management adjusted its estimations and assumptions towards the current unprecedented circumstances resulting in reclassification of expected refunds of sold unused tickets, valuation and accounting treatment of jet fuel hedges, precautionary reserve on engine life of B757 aircraft and impairment of goodwill.

The remaining significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements as at and for the year ended 31 December 2019.

4. 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 Interim Financial Statements and they are not considered to have significant impact on the Consolidated Interim Financial Statements.

Notes, contd.:

5. Operating segments

Segment information is presented in the interim 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 its operations 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.

Icelandair

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.

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.:

5. Operating segments, contd.:

Reportable segments for the six months ended 30 June 2020

	Icelandair	Other Group entities	Total
External revenue	189,380	80,408	269,788
Inter-segment revenue	44,208	906	45,114
Segment revenue	233,588	81,314	314,902
Depreciation and amortisation	(95,083)	(8,863)	(103,946)
Impairment	(82,859)	(40,615)	(123,474)
Segment EBIT	(266,611)	(46,937)	(313,548)
Finance income	17,367	811	18,178
Finance costs	(23,221)	(8,321)	(31,542)
Gain on sale of a subsidiary	0	22,454	22,454
Fair value change	(47,447)	0	(47,447)
Share of profit of equity accounted investees	(4,321)	2	(4,319)
Reportable segment loss before tax	(324,233)	(31,991)	(356,224)
Reportable segment assets	1,292,599	95,613	1,388,212

Reportable segments for the six months ended 30 June 2019 (restated)

	Icelandair	Other Group entities	Total
External revenue	521,033	130,336	651,369
Inter-segment revenue	54,990	4,652	59,642
Segment revenue	576,023	134,988	711,011
Depreciation and amortisation	(69,428)	(12,610)	(82,038)
Segment EBIT	(88,362)	4,679	(83,683)
Finance income	15,653	799	16,452
Finance costs	(28,061)	(6,667)	(34,728)
Share of profit of equity accounted investees	499	(7,514)	(7,015)
Reportable segment loss before tax	(100,271)	(8,703)	(108,974)
Reportable segment assets	1,962,837	378,547	2,341,384

Interim Financial Statements of Icelandair Group hf. 30 June 2020 11 Amounts are in USD thousands

Notes, contd.:

5. Operating segments, contd.:

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

	2020 YTD	2019 YTD
Revenue		
Total revenue for reportable segments	314,902	711,011
Elimination of inter-segment revenue	(45,114)	(59,642)
Consolidated revenue	269,788	651,369
Profit or loss		
Consolidated loss before tax	(356,224)	(108,973)
Assets		
Total assets for reportable segments	1,388,212	2,341,384
Investments in associates	23,371	26,194
Elimination of inter-segment assets	(320,846)	(650,586)
Consolidated total assets	1,090,737	1,716,992
Liabilities		
Total liabilities for reportable segments	1,290,934	1,765,828
Elimination of inter-segment liabilities	(318,594)	(479,699)
Consolidated total liabilities	972,340	1,286,129

Other material items	Reportable segment totals	Adjust-ments	Consoli-dated totals
1.1.-30.6. 2020			
Segment EBIT	(313,548)		(313,548)
Finance income	18,178	(6,162)	12,016
Finance costs	(31,542)	6,162	(25,380)
Depreciation and amortisation	(103,946)		(103,946)
Share of profit of associates	(4,319)		(4,319)
Capital expenditure	(10,284)		(10,284)
1.1.-30.6. 2019			
Segment EBIT	(83,683)		(83,683)
Finance income	16,452	(14,960)	1,492
Finance costs	(34,728)	14,960	(19,768)
Depreciation and amortisation	(82,038)		(82,038)
Share of profit of associates	(7,015)		(7,015)
Capital expenditure	204,091		204,091

Interim Financial Statements of Icelandair Group hf. 30 June 2020 12 Amounts are in USD thousands

Notes, contd.:

5. 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 YTD	2019 YTD
Revenues		
North America	26%	39%
Iceland	32%	25%
West Continental Europe	20%	13%
Scandinavia	5%	7%
United Kingdom	5%	5%
Other	12%	11%
Total revenues	100%	100%
Available Seat Kilometers (ASK'000) Icelandair	2,432,950	7,618,020
Available Seat Kilometers (ASK'000) Air Iceland Connect	30,519	67,035
Freight Tonne Kilometer (FTK'000) Icelandair Cargo	57,096	67,045
Sold Block Hours Loftleidir Icelandic	10,528	14,925

Notes, contd.:

6. Assets held for sale

During year 2019 Icelandair Hotels and Iceland Travel were classified as held for sale. After delivering 75% share in Icelandair Hotels to a new owner, on 3 April 2020, Icelandair Hotels were no longer classified as assets held for sale. In Q2 2020, the remaining 25% share in Icelandair Hotels are classified as an associate. In the beginning of year 2020, Iceland Travel was reclassified from assets held for sale.

On 13 July 2019 the Company signed a share purchase agreement (the "Agreement") with Berjaya Property Ireland Limited ("Berjaya"), a subsidiary of Berjaya Land Berhad, whereby Berjaya acquired a majority share in Icelandair Hotels and related real estate (the "Hotels"). The completion of the transaction was set for year-end 2019 but was postponed until 28 February 2020 and then again until 31 May 2020, inter alia due to complications resulting from the COVID-19 pandemic.

Following negotiations the sale was ultimately closed on 3 April 2020 with the 75% share being delivered to Berjaya the same day. Icelandair Group 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.

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% shares amounted to USD 15.4 million after impairment of goodwill (see further note 11) and was recognised in Q2 2020.

Impacts on the consolidated financial statements

(i) **Comprehensive income (loss)**

	2020 * Q2	2019 ** Q2	2020 * YTD	2019 ** YTD
Revenue	0	47,907	13,258	76,636
Elimination of inter-segment revenue	0	(3,342)	(979)	(5,368)
External revenue		44,565	12,279	71,268
Expenses	0	44,045	18,297	77,429
Elimination of expenses of inter-segment sales	0	(3,342)	(979)	(5,368)
External expenses		40,703	17,318	72,061
Loss from operating activities		3,862	(5,039)	(793)
Net finance cost	0	(3,632)	(9,190)	(8,104)
Share of profit of accosiates	0	(57)	2	(14)
		173	(14,227)	(8,911)
Income tax	0	(180)	2,648	1,734
Loss from tourism services, net of tax		(7)	(11,579)	(7,177)
Basic earnings per share in US cent per share	0.00	0.00	(0.21)	(0.14)
Diluted earnings per share in US cent per share	0.00	0.00	(0.21)	(0.14)

(ii) **Cash flows from (used in)**

	2020 * Q2	2019 ** Q2	2020 * YTD	2019 ** YTD
Net cash from operating activities	0	8,192	(1,335)	13,137
Net cash used in investing activities	0	(1,629)	(405)	(3,421)
Net cash to financing activities	0	(2,618)	(2,790)	(5,084)
Net cash flows for the period		3,945	(4,530)	4,632

* Icelandair Hotels
** Icelandair Hotels and Iceland Travel

Interim Financial Statements of Icelandair Group hf. 30 June 2020 14 Amounts are in USD thousands

Notes, contd.:

7. Operating income

Transport revenue is specified as follows:	2020 Q2	2019 Q2	2020 YTD	2019 YTD
Passengers	9,407	281,289	125,939	416,731
Passenger ancillary revenues	2,435	27,589	16,618	45,142
Cargo	15,770	15,487	29,061	29,965
Total transport revenue	27,612	324,365	171,618	491,838

Other operating revenue is specified as follows:	2020 Q2	2019 Q2	2020 YTD	2019 YTD
Sale in airport and hotels	164	23,803	12,340	42,412
Revenue from tourism	26	29,280	14,957	46,433
Aircraft and cargo handling services	3,243	6,775	8,437	12,062
Maintenance revenue	133	269	898	2,003
Gain on sale of operating assets	2	(4,393)	2	2,311
Other operating revenue	2,734	3,471	7,948	9,993
Total other operating revenue	6,302	59,205	44,582	115,214

8. Operating expenses

Salaries and salary related expenses are specified as follows:

	2020 Q2	2019 Q2	2020 YTD	2019 YTD
Salaries	44,116	93,536	108,268	167,613
Salary related expenses	8,117	26,697	24,490	49,498
Total salaries and salary related expenses	52,233	120,233	132,758	217,111

Aviation expenses are specified as follows:	2020 Q2	2019 Q2	2020 YTD	2019 YTD
Aircraft fuel	8,822	91,849	60,379	143,687
Aircraft lease	3,659	16,830	4,083	20,800
Aircraft handling, landing and communication	8,206	39,305	28,943	64,044
Aircraft maintenance expenses	10,897	17,135	28,760	34,983
Total aviation expenses	31,584	165,119	122,165	263,514

Other operating expenses are specified as follows:	2020 Q2	2019 Q2	2020 YTD	2019 YTD
Operating cost of real estate and fixtures	1,386	4,204	4,729	8,664
Communication	3,800	6,672	10,465	13,863
Advertising	907	5,219	5,305	12,303
Booking fees and commission expenses	(1,327)	20,813	19,316	32,506
Cost of goods sold	134	3,512	2,124	6,549
Customer services	1,840	17,824	13,957	28,884
Travel and other employee expenses	3,282	16,581	13,544	29,919
Tourism expenses	568	13,548	6,516	22,316
Allowance for bad debt *	(1,056)	1,068	11,238	1,023
Other operating expenses	4,980	7,837	13,799	16,362
Total other operating expenses	14,514	97,278	100,993	172,389

* The Group made an allowance for bad debt of its exposures on accounts receivables regarding leasing agreements in 2020 amounting to USD 11.2 million reflecting uncertainty in the airline industry.

Interim Financial Statements of Icelandair Group hf. 30 June 2020 15 Amounts are in USD thousands

Notes, contd.:

9. Depreciation and amortisation

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

	2020 Q2	2019 Q2	2020 YTD	2019 YTD
Depreciation of operating assets	55,038	33,048	90,298	63,130
Depreciation of right-of-use assets	4,602	10,012	11,811	16,611
Amortisation of intangible assets, see note 11	592	1,181	1,837	2,297
Total aviation expenses	60,232	44,241	103,946	82,038

10. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2020 Q2	2019 Q2	2020 YTD	2019 YTD
Interest income on bank deposits	262	651	445	749
Interest income on lease receivables	36	222	227	453
Other interest income	633	(245)	1,309	(326)
Net foreign exchange gain	(2,934)	432	10,035	616
Finance income total	(2,003)	1,060	12,016	1,492
Interest expenses on loans and borrowings	2,150	7,559	5,366	13,687
Interest on lease liabilities	1,559	2,335	5,084	5,677
Interest on Pre Delivery Payments for aircraft (PDP)	1,713	0	14,255	0
Other interest expenses	367	148	675	404
Finance costs total	5,789	10,042	25,380	19,768
Gain on sale of a subsidiary	22,454	0	22,454	0
Changes in fair value of derivatives	3,560	0	(47,447)	0
Net finance costs	18,222	(8,982)	(38,357)	(18,276)

11. 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	7,065	0	644	7,709
Assets classified from held for sale	1,988	0	4,571	6,559
Effects of movements in exchange rates	324	0	(140)	184
Balance at 30 June 2020	159,912	34,565	12,521	206,998

Interim Financial Statements of Icelandair Group hf. 30 June 2020 16 Amounts are in USD thousands

Notes, contd.:

11. Intangible assets and goodwill, contd.:

Amortisation and impairment losses	Goodwill	Trademarks and slots	Other intangibles	Total
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	1,837	1,837
Impairment	123,474	0	0	123,474
Assets classified from held for sale	71	0	3,697	3,768
Effects of movements in exchange rates	0	0	(638)	(638)
Balance at 30 June 2020	135,502	2,605	7,649	145,756
Carrying amounts				
At 31 December 2019	138,578	31,960	4,693	175,231
At 30 June 2020	24,410	31,960	4,872	61,242

12. Impairment test

Goodwill and other intangible assets that have indefinite life are tested for impairment at each reporting date.

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

	30.6.2020	31.12.2019
Goodwill	24,410	138,578
Trademarks and airport slots	31,960	31,960
Total	56,370	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 generated unit (CGU) are as follows:

	Goodwill		Trademarks and slots	
	30.6.2020	31.12.2019	30.6.2020	31.12.2019
Icelandair	0	82,850	22,445	22,445
Other Group entities	24,410	55,728	9,515	9,515
Total goodwill	24,410	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 Group 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 of the Group 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 additional capacity. The business plan assumes that it can take some years to reach the same production capacity as in 2019.

Interim Financial Statements of Icelandair Group hf. 30 June 2020 17 Amounts are in USD thousands

Notes, contd.:

12. Impairment test, contd.:

The recoverable amounts of cash-generating units (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.

Impairment test was made on 31 March 2020 that lead to impairment being recognized in Q1 2020 as further outlined below. No impairment test has been made since except for an impairment test on the goodwill resulting from the sale of Icelandair Hotels. It's the Group's assessment that the assumptions used in the impairment test process at 31 March 2020 have not changed and no further impairment is needed.

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

31.3.2020	**Icelandair**	**Other Group entities**
Long term growth rate	2.0%	1.5 - 2.0%
Revenue growth:		
Weighted average 2019/2018	10.7%	-22 - 18%
2019 - 2023 / 2018 - 2022	-0.5%	2.7 - 6.6%
Budgeted EBIT growth	210.0%	-5.6 - 6.3%
WACC	10.3%	11.4 - 18.7%
Debt leverage	47.9%	28.6 - 49.9%
Interest rate for debt	4.2%	4.2 - 5.7%
31.12.2019		
Long term growth rate	3.5%	2.5 - 3.5%
Revenue growth:		
Weighted average 2019/2018	10.7%	-22 - -18%
2019 - 2023 / 2018 - 2022	4.5%	0.5 - 10.4%
Budgeted EBIT growth	202.4%	5.7 - 11.6%
WACC	10.4%	8.4 - 16.4%
Debt leverage	43.9%	27.1 - 45.8%
Interest rate for debt	4.2%	1.9 - 7.0%

The recoverable amounts of the cash-generating units were estimated to be lower than carrying amounts. Therefore, impairment amounting to USD 123.5 million in total has been recognized. The estimated recoverable amount of the Icelandair segment is lower by USD 77.6 million than its carrying amount. A change in WACC by 0,04% or long term EBIT of 0,08% would lead to an impairment equal to the carrying amount. Due to the sensitivity of the impairment test, the full amount of the goodwill of the Icelandair segment has been impaired (USD 82.9 million).

An impairment of USD 33.3 million has been recognized for one of other Group entity. A change in WACC of 7% would lead to an impairment equal to the carrying amount.

Further USD 7.3 million were recognized after the sale of Icelandair Hotels. With the sale of 75% share of Icelandair Hotels, the Group capitalized goodwill amounting to USD 7.1 million for the remaining 25% share. The total goodwill of Icelandair Hotel has been impaired.

Interim Financial Statements of Icelandair Group hf. 30 June 2020 18 Amounts are in USD thousands

Notes, contd.:

13. Equity

Reserves are specified as follows:	Hedging reserve	Translation reserve	Other reserves	Total reserves
Reserves 1 January 2019	(26,434)	35,570	17,126	26,262
Changes during the period	10,700	(2,812)	(16,061)	(8,173)
Reserves 30 June 2019	(15,734)	32,758	1,065	18,089
Reserves 1 January 2020	(28)	24,346	21,131	45,449
Changes during the period	(57,544)	(31,464)	(3,412)	(92,420)
Recognized loss in P&L	47,447	0	0	47,447
Reserves 30 June 2020	(10,125)	(7,118)	17,719	476

14. Loans and borrowings

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

Non-current loans and borrowings:	30.6.2020	31.12.2019
Secured bank loans	262,597	279,028
Current maturities	(162,239)	(37,700)
Total non-current loans and borrowings	100,358	241,328
Current loans and borrowings:		
Current maturities	162,239	37,700
Bank overdrafts and bank loans	0	42,258
Total current loans and borrowings	162,239	79,958
Total loans and borrowing	262,597	321,286

Terms and debt repayment schedule:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance 30.6.2020	31.12.2019
Secured bank loans	USD	2.6%	2022-2028	47,213	181,505
Secured bank loans	EUR	1.2%	2026-2028	62,136	65,184
Secured bank loans	ISK		2024	0	32,339
Secured bank loans - short term	USD	4.2%	2024	124,957	29,892
Secured bank loans - short term	ISK	3.8%	2024	28,291	12,366
Total interest-bearing liabilities				262,597	321,286

As at 30 June 2020, the Group had undrawn credit lines in the amount of USD 62.7 million denominated in USD and ISK. While these have not contractually expired, they are currently unavailable to the Group due to financial covenant breaches.

Interim Financial Statements of Icelandair Group hf. 30 June 2020 19 Amounts are in USD thousands

Notes, contd.:

14. Loans and borrowings, contd.:

Repayments of loans and borrowings are specified as follows:

	30.6.2020	31.12.2019
Repayments in 2020 (6 months)(2019: 12 months)	24,551	79,958
Loans classified as short term due to breaches of financial covenants	132,771	0
Repayments in 2021	8,178	38,116
Repayments in 2022	11,914	42,032
Repayments in 2023	8,253	37,896
Repayments in 2024	7,579	54,177
Subsequent repayments	69,351	69,107
Total loans and borrowings	262,597	321,286

At the end of Q2 2020, the Group was in breach of financial covenants in its long term loan agreements. These loans amounted to USD 153.2 million in total. The Group has been granted waivers for some and is engaged in active dialogue with its counterparties on the rest as part of the Group's overall financial restructuring. Due to the aforementioned, these loans are classified as short term despite the fact that they do not mature until the year 2024.

15. Lease liabilities

This note provides information on the contractual terms of the Group's lease liabilities, which are measured at amortised cost.

	Currency	Interest rates	Year of maturity	Total remaining balance 30.6.2020	31.12.2019
Lease liabilities	USD	4.7%	2020-2030	137,460	147,206
Lease liabilities indexed	ISK	4.6%	2020-2038	9,306	9,000
Lease liabilities	GBP	2.2%	2020-2025	1,383	1,604
Lease liabilities	other	2.5%	2020-2028	914	643
Current maturity				(23,673)	(22,980)
Total lease liabilities				125,390	135,473

Repayments of lease liabilities are specified as follows:

	30.6.2020	31.12.2019
Repayments in 2020 (6 months)(2019: 12 months)	11,687	22,980
Repayments in 2021	22,887	21,189
Repayments in 2022	20,652	19,893
Repayments in 2023	20,070	19,678
Repayments in 2024	18,335	18,084
Subsequent repayments	55,432	56,629
Total loans and borrowings	149,063	158,453

The Group has made one sale and leaseback agreement for one of its future Boeing 737 MAX deliveries. The initial lease liability will amount to USD 35.1 million when the Group will take delivery of the aircraft. See further in note 19 on Capital commitments.

Interim Financial Statements of Icelandair Group hf. 30 June 2020 20 Amounts are in USD thousands

Notes, contd.:

16. Deferred income

Sold unused tickets, fair value of unutilized frequent flyer points and other prepayments are presented as deferred income in the consolidated statement of financial position.

Deferred income is specified as follows:	30.6.2020	31.12.2019
Sold unused tickets and vouchers	142,582	154,180
Frequent flyer points	19,248	17,591
Other prepayments	8,468	32,209
Total deferred income	170,298	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. In the current unprecedented circumstances, a substantial part of this deferred income was reclassified to trade and other payables in Q1 2020 given the anticipated cancellation of flights and the associated refunds of sold unused tickets. Given that a larger percentage of customers have accepted vouchers for future flights, instead of cash refunds, than originally expected, part of the then reclassified amount has been moved back in Q2 2020 to deferred income. Total amount of issued vouchers at the end of the reporting period amounted to USD 67.2 million. These vouchers are generally valid for 3 years.

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 recognised as deferred income.

17. Derivatives

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 fall in the price of fuel. The current Group strategy as reflected in the policy is to hedge between 40% and 60% of 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.

After the reporting period the Group resolved to close out half of all existing open fuel hedges, measured at fair value, and roll the remaining positions forward by spreading them out in line with the Group's expected production and fuel consumption until June 2022.

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		Effect on P&L	
	30.6.2020	31.12.2019	30.6.2020	31.12.2019
Increase in fuel prices by 10%	534	12,656	4,816	0
Decrease in fuel prices by 10%	(534)	(12,656)	(4,816)	0

Interim Financial Statements of Icelandair Group hf. 30 June 2020 21 Amounts are in USD thousands

Notes, contd.:

17. Derivatives, contd.:

Hedge accounting

The Hedge Accounting Standards of IFRS9 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 includes an estimation of the volume of fuel consumption covering 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 hedging policy. The change in fuel price in Q2 2020 has had an effect on the fair value of the open positions and thus the effective value identified in the Equity and the ineffective portion identified in the P&L.

Following table shows effective and ineffective fuel hedges:

30.6.2020	Closed Q2	1-6 months	7-12 months	> 13 months	Total
Fuel		26,448	11,419	1,631	39,498
Currency		4,150	779	0	4,929
Interest rate swap		325	252	2,817	3,394
Margin accounts		(15,174)	0	0	(15,174)
Total derivatives, Payable		15,749	12,450	4,448	32,647
Ineffective fuel derivatives, P&L	(12,161)	(21,990)	(11,756)	(1,540)	(47,447)
Tax		(1,689)	(139)	(582)	(2,410)
Derivatives used for hedge, Equity		7,244	555	2,326	10,125

In July 2020 open fuel positions amounting to the book value of USD 18.2 million were unwound and settled. Margin accounts amounting to USD 12.5 million were offset against early settlements. These transactions have been incorporated in the tenure allocation of the open positions in the table above.

18. Financial instruments and fair values

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

	30.6.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives	(32,647)	(32,647)	320	320
Unsecured bond issue	0	0	(12,366)	(12,366)
Secured loans	(262,597)	(270,317)	(308,920)	(319,389)
Lease liabilites	(149,063)	(149,063)	(158,453)	(158,453)
Total	(444,307)	(452,027)	(479,419)	(489,888)

Interim Financial Statements of Icelandair Group hf. 30 June 2020 22 Amounts are in USD thousands

Notes, contd.:

19. Capital commitments

In 2013, the Group and Boeing signed an agreement for the purchase of sixteen Boeing 737 MAX8 and MAX9 aircraft with an option to purchase additional eight aircraft. The Group has already taken delivery of six aircraft which have been grounded since March 2019. Further three aircraft were supposed to be delivered in the first half of 2019 and five aircraft in Q1 2020. None of these aircraft have been delivered to date.

Currently, it is uncertain when the MAX aircraft will return to service and when deliveries will take place. The MAX production line is currently halted and it's uncertain when production will start again. Due to this uncertainty, Icelandair expensed USD 14.3 million in financing cost of pre-delivery payments (PDPs) in Q1 2020 which is accumulated financing cost of these undelivered MAX aircraft which would have been capitalized as part of the purchase price at the time of delivery under normal circumstances.

Pre-delivery payments (PDPs) amounting to USD 12.7 million which the Group has paid to Boeing are classified as trade and other receivables.

20. Group entities

The Company held seven subsidiaries at the end of June 2020.

	Share
Icelandair	
A320 ehf.	100%
IceCap Insurance PCC Ltd.	100%
Iceeignir ehf.	100%
Icelandair ehf. *	100%
Other Group entities	
Loftleiðir - Icelandic ehf.	100%
FERIA ehf. (VITA)	100%
Iceland Travel ehf.	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 interim financial statements. Three of those have non-controlling shareholders.

Interim Financial Statements of Icelandair Group hf. 30 June 2020 23 Amounts are in USD thousands

Notes, contd.:

21. Investment in associates

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

	Ownership	Carrying amount 30.6.2020	Share of profit/loss in associates 1.1.-30.6.2020	Carrying amount 31.12.2019	Share of profit/loss in associates 1.1.-30.6.2019
Lindarvatn ehf.	50%	13,492	(13)	15,435	(64)
ITF 1 slhf.	29%	5,892	(1,994)	9,009	351
Cabo Verde Airlines	36%	0	0	0	(7,500)
EBK ehf.	25%	1,131	124	1,154	213
Icelandair Hotels *	25%	2,840	(2,439)	0	0
Other investments		165	3	186	(15)
Total investments in associates		23,520	(4,319)	25,784	(7,015)

* Icelandair Hotels are classified as investment in associates as of 3 April 2020 (see note 6).

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.

22. Ratios

The Group's primary ratios are specified as follows:

	30.6.2020	31.12.2019
Current ratio	0.43	0.86
Equity ratio	0.11	0.29
Intrinsic value of share capital	2.68	10.91

23. Changes in legislation and agreement to maintain minimum flights

Some entities within the Group fulfill the requirements of new legislation due to COVID-19, for partial payments of salary cost during employees' notice periods according to Icelandic Act No. 50/2020. These entities are in the process of applying for such payments. The total amount of lower salary cost under this legislation is still uncertain and is mainly a function of what groups of employees will definitively be part of the application and the timing and volume of rehires while the program is in effect. The Group estimates that the application will amount to at least USD 24.0 million which has been accounted for in Q2 2020 according to IAS 20 net of related expenses. It is a possibility that further reduction in salary cost due to this program will be accounted for in Q3 2020.

The Group and the Icelandic Government entered into agreements since COVID-19 started whereby Icelandair committed to maintain minimum number of domestic and international flights per week to ensure minimum passenger flight transportation. Under these agreements, the Group received payments from the Icelandic Government which have been accounted for as other revenue of USD 2.0 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 and not accounted for in the Group‘s financial statements.

Interim Financial Statements of Icelandair Group hf. 30 June 2020 24 Amounts are in USD thousands

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