

Icelandair Group hf.
Condensed Consolidated
Interim Financial Statements
1 January - 30 September 2014

USD

Icelandair Group hf.
Reykjavíkurlugvöllur
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Iceland
Reg. no. 631205-1780

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Endorsement and Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 30 September 2014 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, profit for the period from 1 January to 30 September amounted to USD 81.5 million. Total comprehensive income for the period was USD 76.5 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 403.6 million, including share capital in the amount of USD 40.6 million. Reference is made to the notes 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 nine months ended 30 September 2014 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.

According to our best knowledge it is our opinion that the condensed consolidated interim financial statements give a true and fair view of the financial performance of the Group for the nine month period ended 30 September 2014, its assets, liabilities and consolidated financial position as at 30 September 2014 and its consolidated cash flows for the period then ended.

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

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

Reykjavík, 30 October 2014.

Board of Directors:

Sigurður Helgason, Chairman of the Board
Úlfar Steindórsson
Ásthildur M. Otharsdóttir
Katrín Olga Jóhannesdóttir
Magnús Magnússon

CEO:

Björgólfur Jóhannsson

Consolidated Statement of Comprehensive Income for the period from 1 January to September 2014

	Notes	2014 1.7.-30.9.	2013 1.7.-30.9.	2014 1.1.-30.9.	2013 1.1.-30.9.
Operating income					
Transport revenue	7	320.775	264.430	662.273	562.667
Aircraft and aircrew lease		17.060	28.829	55.560	86.744
Other operating revenue	7	80.911	78.403	189.983	160.896
		<u>418.746</u>	<u>371.662</u>	<u>907.816</u>	<u>810.307</u>
Operating expenses					
Salaries and other personnel expenses	8	69.753	61.519	208.047	177.299
Aircraft fuel		95.783	80.605	218.385	188.635
Aircraft lease		5.732	8.927	18.771	27.070
Aircraft handling, landing and communication		29.357	25.532	65.960	57.725
Aircraft maintenance expenses		21.647	26.744	59.456	64.420
Other operating expenses	8	72.591	66.092	181.378	158.293
		<u>294.863</u>	<u>269.419</u>	<u>751.997</u>	<u>673.442</u>
Operating profit before depreciation and amortisation (EBITDA) ..		123.883	102.243	155.819	136.865
Depreciation and amortisation		(21.368)	(20.073)	(58.054)	(52.924)
Operating profit before net finance costs (EBIT)		102.515	82.170	97.765	83.941
Finance income		3.720	1.732	4.921	4.764
Finance costs		(74)	(2.038)	(5.038)	(6.450)
Net finance income (costs)	9	3.646	(306)	(117)	(1.686)
Share of profit (loss) of associates, net of tax		28	(11)	(45)	(20)
Profit before tax		106.189	81.851	97.603	82.233
Income tax		(20.388)	(16.526)	(18.723)	(16.707)
Profit from continuing operations		<u>85.801</u>	<u>65.325</u>	<u>78.880</u>	<u>65.526</u>
Discontinued operation					
Profit from discontinued operation, net of tax	6	0	0	2.593	0
Profit for the period		<u>85.801</u>	<u>65.325</u>	<u>81.473</u>	<u>65.526</u>
Other comprehensive income:					
Foreign currency translation differences of foreign operations		(4.161)	1.016	(3.479)	2.711
Net profit (loss) on hedge of net investment in foreign operation, net of tax		16	(80)	80	(42)
Effective portion of changes in fair value of cash flow hedge, net of tax		(1.592)	820	(1.555)	(141)
Other comprehensive (loss) profit for the period		<u>(5.737)</u>	<u>1.756</u>	<u>(4.954)</u>	<u>2.528</u>
Total comprehensive income for the period		<u>80.064</u>	<u>67.081</u>	<u>76.519</u>	<u>68.054</u>

The notes on pages 9 to 15 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Comprehensive Income for the period from 1 January to 30 September, contd.:

	2014 1.7.-30.9.	2013 1.7.-30.9.	2014 1.1.-30.9.	2013 1.1.-30.9.
Profit attributable to:				
Owners of the Company	85.734	65.267	81.381	65.470
Non-controlling interest	67	58	92	56
Profit for the period	85.801	65.325	81.473	65.526
Total Comprehensive income attributable to:				
Owners of the Company	80.020	67.015	76.444	68.058
Non-controlling interest	44	66	75 (4)
Total comprehensive income for the period	80.064	67.081	76.519	68.054
Earnings per share:				
Basic earnings per share expressed in USD cent per share	1,73	1,32	1,64	1,32
Diluted earnings per share expressed in USD cent per share	1,73	1,32	1,64	1,32
Earnings per share from continuing operations:				
Basic earnings per share expressed in USD cent per share	1,73	1,32	1,59	1,32
Diluted earnings per share expressed in USD cent per share	1,73	1,32	1,59	1,32

The notes on pages 9 to 15 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Financial Position as at 30 September 2014

	Notes	30.9.2014	31.12.2013
Assets			
Operating assets	10	297.611	299.197
Intangible assets and goodwill		176.929	179.676
Investments in associates		2.656	2.035
Long-term cost		175	258
Non-current receivables and deposits		16.294	15.791
Non-current assets		493.665	496.957
Inventories		23.200	22.166
Trade and other receivables		105.673	114.259
Marketable securities		27.119	7.955
Cash and cash equivalents		227.576	191.538
Current assets		383.568	335.918
Total assets		877.233	832.875
Equity			
Share capital		40.576	40.576
Share premium		154.705	154.705
Reserves	11	26.769	31.706
Retained earnings		181.243	118.856
Equity attributable to equity holders of the Company		403.293	345.843
Non-controlling interest		314	239
Total equity		403.607	346.082
Liabilities			
Loans and borrowings	12	42.957	78.489
Other payables		15.168	23.742
Deferred tax liabilities		43.880	27.995
Non-current liabilities		102.005	130.226
Loans and borrowings	12	12.512	43.528
Trade and other payables		202.458	159.504
Deferred income		156.651	153.535
Current liabilities		371.621	356.567
Total liabilities		473.626	486.793
Total equity and liabilities		877.233	832.875

The notes on pages 9 to 15 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Changes in Equity for the period from 1 January to 30 September 2014

	Attributable to equity holders of the Company						Non-con- trolling interest	Total equity
	Share capital	Share premium	Reserves	Retained earnings	Total	Total		
1 January to 30 September 2013								
Equity 1.1.2013	40.576	154.705	26.164	74.230	295.675	257	295.932	
Total comprehensive income			2.588	65.470	68.058	(4)	68.054	
Dividend (0.24 USD cent per share) .				(11.760)	(11.760)		(11.760)	
Equity 30.9.2013	40.576	154.705	28.752	127.940	351.973	253	352.226	
 1 January to 30 September 2014								
Equity 1.1.2014	40.576	154.705	31.706	118.856	345.843	239	346.082	
Total comprehensive income			(4.937)	81.381	76.444	75	76.519	
Dividend (0.38 USD cent per share) .				(18.994)	(18.994)		(18.994)	
Equity 30.9.2014	40.576	154.705	26.769	181.243	403.293	314	403.607	

Information on changes in reserves are provided in note 11.

The notes on pages 9 to 15 are an integral part of these interim consolidation financial statements.

Consolidated Statement of Cash Flows for the nine months ended 30 September 2014

	Notes	2014 1.7.-30.9.	2013 1.7.-30.9.	2014 1.1.-30.9.	2013 1.1.-30.9.
Cash flows from operating activities					
Profit for the period		85.801	65.325	81.473	65.526
Adjustments for:					
Depreciation and amortisation		21.368	20.073	58.054	52.924
Other operating items	18	28.042	25.740	33.405	39.361
Working capital from operations		<u>135.211</u>	<u>111.138</u>	<u>172.932</u>	<u>157.811</u>
Net change in operating assets and liabilities	19	(129.444)	(80.866)	37.831	57.350
Net cash from operating activities		<u>5.767</u>	<u>30.272</u>	<u>210.763</u>	<u>215.161</u>
Cash flows used in investing activities:					
Acquisition of operating assets		(17.589)	(10.228)	(56.230)	(75.145)
Proceeds from the sale of operating assets		284	521	677	780
Acquisition of intangible assets		(373)	(496)	(1.488)	(1.910)
Long-term cost, change		(10.313)	(12.652)	(12.158)	(16.652)
Long-term receivables, change		432	(1.327)	2.024	(782)
Marketable securities, change		(10.824)	(106)	(19.163)	13.149
Net cash used in investing activities		<u>(38.383)</u>	<u>(24.288)</u>	<u>(86.338)</u>	<u>(80.560)</u>
Cash flows used in financing activities:					
Dividend paid		0	0	(18.994)	(11.760)
Repayment of long term borrowings		(3.622)	(10.361)	(66.682)	(25.530)
Net cash used in financing activities		<u>(3.622)</u>	<u>(10.361)</u>	<u>(85.676)</u>	<u>(37.290)</u>
(Decrease) increase in cash and cash equivalents		(36.238)	(4.377)	38.749	97.311
Effect of exchange rate fluctuations on cash held		(3.179)	518	(2.711)	1.113
Cash and cash equivalents at beginning of the period ...		<u>266.993</u>	<u>219.343</u>	<u>191.538</u>	<u>117.060</u>
Cash and cash equivalents at 30 September		<u><u>227.576</u></u>	<u><u>215.484</u></u>	<u><u>227.576</u></u>	<u><u>215.484</u></u>

The notes on pages 9 to 15 are an integral part of these interim consolidation financial statements.

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The condensed consolidated interim financial statements of the Company as at and for the nine months ended 30 September 2014 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 transportation and tourism industry. The Company is listed on the Nasdaq OMX Iceland.

The Group's consolidated financial statements as at and for the year ended 31 December 2013 are available upon request from the Company's registered office at Reykjavíkurlugvöllur in Reykjavík, Iceland or at its website address, www.icelandairgroup.is and at The Icelandic Stock Exchange website, www.nasdaqomx.com.

2. Basis of preparation

a. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2013. These condensed consolidated interim financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards.

These condensed consolidated interim financial statements were approved for issue by the Board of Directors on 30 October 2014.

Except as described below the accounting policies and methods of computation applied by the Group in these condensed interim consolidated 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 2013.

b. Restatement of comparative figures

When preparing the financial statements, new and improved methods of eliminating intercompany transactions were put in place. As the change affects the classification of cost, comparative figures for 2013 have been adjusted accordingly. The effect on the comparative figures is a reduction in Aircraft and aircrew lease of USD 18.6 million and comparative increase in Aircraft maintenance expenses. Insignificant adjustments were made to other line items of operating expenses. The restatement of the comparative amounts has no other effect on the consolidated financial statements.

3. Significant accounting policies

Functional and presentation currency

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

The Group has adopted all new standards and amendments to standards with a date of initial application of 1 January 2014 that have been approved by the EU.

Notes, contd.:

4. Judgements and estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2013.

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 control framework with respect to the measurement of fair values. The management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The management 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.

Significant valuation issues are reported to the Group Audit Committee.

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 recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Notes, contd.:

5. Operating segment

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

Route network

Seven companies are categorised as part of the Route Network: Icelandair, Icelandair Cargo, Loftleidir, Air Iceland, Icelandair Ground Services, FERIA ehf. and Fjárvakur - Icelandair Shared Services.

Tourism services

Two companies are categorized as part of the Tourism Services: Iceland Travel and Icelandair Hotels.

Reportable segments for the nine months ended 30 September 2014

	Route network		Tourism services		Total	
	1.7.-30.9.	1.1.-30.9.	1.7.-30.9.	1.1.-30.9.	1.7.-30.9.	1.1.-30.9.
External revenue	362.385	801.598	56.065	105.917	418.450	907.515
Inter-segment revenue	34.638	100.799	3.362	5.126	38.000	105.925
Segment revenue	397.023	902.397	59.427	111.043	456.450	1.013.440
Segment EBITDAR*	121.769	171.719	13.372	17.667	135.141	189.386
Segment EBITDA	114.371	149.635	10.112	9.248	124.483	158.883
Profit before taxes	95.977	93.281	9.860	7.272	105.837	100.553
Segment assets		703.250		46.176		749.426

Reportable segments for the nine months ended 30 September 2013

External revenue	332.971	730.511	48.184	87.539	381.155	818.050
Inter-segment revenue	33.121	106.887	2.289	4.346	35.410	111.233
Segment revenue	366.092	837.398	50.473	91.885	416.565	929.283
Segment EBITDAR*	103.399	159.417	11.620	14.994	115.019	174.411
Segment EBITDA	94.160	130.574	8.784	7.651	102.944	138.225
Profit before taxes	75.143	80.457	8.142	5.783	83.285	86.240
Segment assets		703.557		37.674		741.231

Reconciliation of reportable segment income

	2014	2013
	1.1.-30.9.	1.1.-30.9.
Total profit for reportable segments	100.553	86.240
Unallocated amounts:		
Other corporate expenses	(2.905)	(3.987)
Share of loss of equity accounted investees	(45)	(20)
Consolidated profit before income tax	97.603	82.233

Other material items 30 September 2014

	Reportable segment	Adjustments	Consolidated
Segment EBITDAR*	189.386	(3.064)	186.322
Segment EBITDA	158.883	(3.064)	155.819

* EBITDAR means EBITDA before operating lease expenses.

Seasonality

The Group's business is highly seasonal with highest demand during the summer months.

Notes, contd.:

6. Discontinued operation

On December 30th 2011 Smartlynx, previously classified as discontinued operations, was sold. Pursuant to the sale Icelandair Group guaranteed aircraft leases on behalf of Smartlynx and had loans to the Company. Since the sale Icelandair Group has made provisions for potential losses due to the guarantees and the loans. At September 30th 2014 all loans were paid and all lease guarantees had expired and the provision was reversed resulting in a net income of 2.6 million USD.

7. Operating income

Transport revenue is specified as follows:

	2014	2013	2014	2013
	1.7.-30.9.	1.7.-30.9.	1.1.-30.9.	1.1.-30.9.
Passengers	309.758	254.085	628.764	531.338
Cargo and mail	11.017	10.345	33.509	31.329
Total transport revenue	<u>320.775</u>	<u>264.430</u>	<u>662.273</u>	<u>562.667</u>

Other operating revenue is specified as follows:

Sale at airports and hotels	26.899	23.893	61.358	51.769
Revenue from tourism	39.326	32.559	76.951	61.884
Aircraft and cargo handling services	8.757	8.246	25.656	23.930
Maintenance revenue	1.892	9.729	14.453	12.345
Gain on sale of operating assets	75	307	214	283
Other operating revenue	3.962	3.669	11.351	10.685
Total other operating revenue	<u>80.911</u>	<u>78.403</u>	<u>189.983</u>	<u>160.896</u>

8. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	48.409	42.618	137.077	114.660
Salary-related expenses	8.680	8.387	34.570	30.491
Other personnel expenses	12.664	10.514	36.400	32.148
Total salaries and personnel expenses	<u>69.753</u>	<u>61.519</u>	<u>208.047</u>	<u>177.299</u>

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures	6.212	6.098	17.067	16.323
Communication	4.166	3.257	12.840	10.303
Advertising	5.991	5.291	15.862	14.534
Booking fees and commission expenses	12.485	11.210	35.727	29.461
Cost of goods sold	7.560	6.290	18.270	15.478
Customer services	7.270	5.790	16.618	11.645
Tourism expenses	25.492	21.415	47.276	37.475
Allowance for bad debt	(3.367)	(464)	(2.597)	772
Other operating expenses	6.782	7.205	20.315	22.302
Total other operating expenses	<u>72.591</u>	<u>66.092</u>	<u>181.378</u>	<u>158.293</u>

Notes, contd.:

9. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2014 1.7.-30.9.	2013 1.7.-30.9.	2014 1.1.-30.9.	2013 1.1.-30.9.
Interest income on bank deposits	149	185	612	527
Other interest income	146	128	884	1.008
Net foreign exchange gain	4.460	1.419	3.425	3.229
Finance income total	<u>4.755</u>	<u>1.732</u>	<u>4.921</u>	<u>4.764</u>
Interest expenses on loans and borrowings	959	1.589	4.523	5.591
Other interest expenses	150	449	515	859
Finance costs total	<u>1.109</u>	<u>2.038</u>	<u>5.038</u>	<u>6.450</u>
Net finance income (costs)	<u>3.646</u>	<u>(306)</u>	<u>(117)</u>	<u>(1.686)</u>

10. Operating assets

Aquisition of operating assets in the first nine months of 2014 amounted to USD 56.2 million. Included is one Boeing 757 aircraft, overhaul of own engines and aircraft spare parts of USD 34.5 million.

11. Equity

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Total reserves
Reserves 1.1.2013	(1.338)	27.502	26.164
Changes during the period	(141)	2.729	2.588
Reserves 30.9.2013	<u>(1.479)</u>	<u>30.231</u>	<u>28.752</u>
Reserves 1.1.2014	(108)	31.814	31.706
Changes during the period	(1.555)	(3.382)	(4.937)
Reserves 30.9.2014	<u>(1.663)</u>	<u>28.432</u>	<u>26.769</u>

12. Loans and borrowings

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

	30.9.2014	31.12.2013
Non-current loans and borrowings are specified as follows:		
Secured bank loans	42.636	107.621
Unsecured loans	12.833	14.396
	<u>55.469</u>	<u>122.017</u>
Current maturities	(12.512)	(43.528)
Total non-current loans and borrowings	<u>42.957</u>	<u>78.489</u>

Terms and debt repayment schedule:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance	
				30.9.2014	31.12.2013
Secured bank loan	USD	5,8%	2014-2018	40.682	74.921
Secured bank loan	EUR			0	15.518
Secured bank loan	ISK	7,9%	2023	1.015	16.209
Secured bank loan, indexed	ISK	6,3%	2021-2028	939	973
Unsecured bond issue, indexed	ISK	5,7%	2023	12.833	14.396
Total interest-bearing liabilities				<u>55.469</u>	<u>122.017</u>

Notes, contd.:

13. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	2014	2013
Repayments in 2014 (3 months)(2013: 12 months)	3.709	43.528
Repayments in 2015	11.467	15.898
Repayments in 2016	11.916	16.350
Repayments in 2017	11.993	29.471
Repayments in 2018	7.374	7.430
Subsequent repayments	9.010	9.340
Total loans and borrowings	55.469	122.017

14. Financial instruments and fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	30.9.2014		31.12.2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives, included in loans and receivables	2.667	2.667	1.853	1.853
Marketable securities	27.119	27.119	7.955	7.955
Unsecured bond issue	(12.833)	(14.912)	(14.396)	(17.398)
Secured loans	(42.636)	(47.579)	(107.621)	(117.219)
Derivatives, included in payables and prepayments	(4.627)	(4.627)	(2.050)	(2.050)
Total	(30.310)	(37.332)	(114.259)	(126.859)

15. Off-balance sheet items

As a lessee the Group has in place operating leases for 9 aircraft at the end of September 2014. The leases are for 4 Boeing 757 aircraft, 2 Boeing 767 aircraft and 3 Boeing 737 aircraft. The Group also has in place operating leases for storage facilities, accommodations, equipment and fixtures for its operations, the longest until the year 2039. At the end of September 2014 the leases are payable as follows in nominal amounts for each year:

				Total
	Real estate	Aircraft	Other	30.9.2014
In Q4 2014	2.632	5.995	1.075	9.701
In the year 2015	13.161	22.293	2.686	38.140
In the year 2016	16.120	16.443	762	33.324
In the year 2017	15.361	13.113	696	29.171
In the year 2018	15.279	11.211	0	26.490
Subsequent	192.683	10.575	0	203.258
Total	255.235	79.630	5.218	340.084

16. Capital commitments

In February 2013 Icelandair Group and Boeing finalized an agreement for the purchase of sixteen 737 MAX8 and 737 MAX9 aircraft with an option to purchase additional eight aircraft. The delivery of the first aircraft is scheduled in the first half of 2018. The commitment for all sixteen aircraft is valued at USD 1.6 billion at Boeing list prices. The Company received acceptable discounts which due to confidentiality agreements cannot be disclosed. Prepayments according to the agreement will be made over the construction period. The acquisition will be funded by internal resources and from aviation finance products.

Notes, contd.:

17. Group entities

The Company held eleven subsidiaries at the end of September 2014. The subsidiaries included in the consolidated interim financial statements are as follows:

	Share
Route network:	
Air Iceland ehf.	100%
Feria ehf.	100%
Fjárvakur - Icelandair Shared Services ehf.	100%
Icelandair ehf.	100%
Icelandair Cargo ehf.	100%
IGS ehf.	100%
Lofhleðir - Icelandic ehf.	100%
Tourism services:	
Iceland Travel ehf.	100%
Icelandair Hotels ehf.	100%
Other operations:	
A320 ehf.	100%
IceCap Ltd., Guernsey	100%

The subsidiaries further own 17 subsidiaries that are all included in the consolidated interim financial statements.

18. Statement of cash flows

Other operating items in the statement of cash flows are specified as follows:

	2014	2013	2014	2013
	1.7.-30.9.	1.7.-30.9.	1.1.-30.9.	1.1.-30.9.
Expensed long-term cost	9.210	8.011	15.689	20.371
Exchange rate differences	(1.455)	1.499	(624)	2.546
Gain on sale of operating assets	(75)	(307)	(214)	(283)
(Loss) gain on sale of shares	2	0	(214)	0
Share in (gain) loss of associates	(28)	11	45	20
Income tax	20.388	16.526	18.723	16.707
Other operating items total	<u>28.042</u>	<u>25.740</u>	<u>33.405</u>	<u>39.361</u>

19. Net change in operating assets and liabilities in the statement of cash flows is specified as follows:

Inventories, decrease (increase)	63	(1.100)	(1.034)	(4.103)
Trade and other receivables, decrease (increase) ...	27.305	9.095	4.060	(7.384)
Trade and other payables, (decrease) increase	(18.155)	1.272	31.690	51.089
Deferred income, (decrease) increase	(138.657)	(90.133)	3.115	17.748
Net change in operating assets and liabilities	<u>(129.444)</u>	<u>(80.866)</u>	<u>37.831</u>	<u>57.350</u>

20. Additional cash flow information:

Interest expenses paid	1.011	2.645	5.633	6.844
Interest income received	227	325	799	2.462

21. Ratios

The Group's primary ratios are specified as follows:

	30.9.2014	31.12.2013
Current ratio	1,03	0,94
Equity ratio	0,46	0,42
Intrinsic value of share capital	9,95	8,53