

Icelandair Group hf.
Condensed Consolidated
Interim Financial Statements
1 January - 31 March 2015

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 31 March 2015 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 31 March amounted to USD 14.6 million. Total comprehensive loss for the period was USD 11.5 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 335.6 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 three months ended 31 March 2015 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 three month period ended 31 March 2015, its assets, liabilities and consolidated financial position as at 31 March 2015 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 31 March and confirm them by means of their signatures.

Reykjavík, 29 April 2015.

Board of Directors:

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

CEO:

Björgólfur Jóhannsson

Condensed consolidated statement of profit or loss and OCI for the three months ended 31 March 2015

	Notes	2015 1.1.-31.3.	2014 1.1.-31.3.
Operating income			
Transport revenue	6	128,339	121,580
Aircraft and aircrew lease		20,179	21,961
Other operating revenue	6	37,557	47,736
		186,075	191,277
Operating expenses			
Salaries and other personnel expenses		57,087	60,889
Aviation expenses		81,903	89,417
Other operating expenses		49,353	54,275
	7	188,343	204,581
Operating loss before depreciation and amortisation (EBITDA)		(2,268)	(13,304)
Depreciation and amortisation		(17,011)	(17,296)
Operating loss before net finance (costs) income (EBIT)		(19,279)	(30,600)
Finance income		2,427	460
Finance costs		(1,542)	(3,147)
Net finance income (costs)	8	885	(2,687)
Share of profit (loss) of associates, net of tax		90	(75)
Loss before tax		(18,304)	(33,362)
Income tax		3,752	6,641
Loss for the period		(14,552)	(26,721)
Other comprehensive income (loss):			
Currency translation differences		(3,977)	752
Net profit on hedge of investment, net of tax		0	47
Effective portion of changes in fair value of cash flow hedge, net of tax		7,033	(2,347)
Other comprehensive income (loss) for the period		3,056	(1,548)
Total comprehensive loss for the period		(11,496)	(28,269)
Loss attributable to:			
Owners of the Company		(14,502)	(26,721)
Non-controlling interest		(50)	0
Loss for the period		(14,552)	(26,721)
Total comprehensive loss attributable to:			
Owners of the Company		(11,432)	(28,269)
Non-controlling interest		(64)	5
Total comprehensive loss for the period		(11,496)	(28,264)
Loss per share:			
Basic loss per share expressed in USD cent per share		(0.29)	(0.54)
Diluted loss per share expressed in USD cent per share		(0.29)	(0.54)

The notes on pages 8 to 14 are an integral part of these interim financial statements.

Condensed consolidated statement of financial position as at 31 March 2015

	Notes	31.3.2015	31.12.2014
Assets			
Operating assets	9	325,831	319,340
Intangible assets and goodwill		173,649	175,973
Investments in associates		2,662	2,324
Deffered cost		128	153
Receivables and deposits		18,946	16,413
Non-current assets		521,216	514,203
Inventories		21,354	22,906
Trade and other receivables		128,450	96,470
Short term investments		39,288	30,879
Cash and cash equivalents		282,655	184,762
Current assets		471,747	335,017
Total assets		992,963	849,220
Equity			
Share capital		40,576	40,576
Share premium		154,705	154,705
Reserves	10	6,265	3,195
Retained earnings		133,926	166,371
Equity attributable to equity holders of the Company		335,472	364,847
Non-controlling interest		144	208
Total equity		335,616	365,055
Liabilities			
Loans and borrowings	11	68,557	49,671
Other payables		8,729	8,291
Deferred tax liabilities		21,090	24,681
Non-current liabilities		98,376	82,643
Loans and borrowings	11	12,230	12,263
Trade and other payables		248,957	214,315
Deferred income		297,784	174,944
Current liabilities		558,971	401,522
Total liabilities		657,347	484,165
Total equity and liabilities		992,963	849,220

The notes on pages 8 to 14 are an integral part of these interim financial statements.

Condensed consolidated statement of changes in equity for the three months ended 31 March 2015

Attributable to equity holders of the Company							
	Share capital	Share premium	Reserves	Retained earnings	Total	Non-con- trolling interest	Total equity
1 January to 31 March 2014							
Equity 1.1.2014	40,576	154,705	31,706	118,856	345,843	239	346,082
Total comprehensive loss			(1,548)	(26,721)	(28,269)	5	(28,264)
Dividend (0.24 USD cent per share)				(19,091)	(19,091)		(19,091)
Equity 31.3.2014	40,576	154,705	30,158	73,044	298,483	244	298,727
1 January to 31 March 2015							
Equity 1.1.2015	40,576	154,705	3,195	166,371	364,847	208	365,055
Total comprehensive loss			3,070	(14,502)	(11,432)	(64)	(11,496)
Dividend (0.50 USD cent per share)				(17,943)	(17,943)		(17,943)
Equity 31.3.2015	40,576	154,705	6,265	133,926	335,472	144	335,616

Information on changes in reserves are provided in note 10.

The notes on pages 8 to 14 are an integral part of these interim financial statements.

Condensed consolidated statement of cash flows for the three months ended 31 March 2015

	Notes	2015 1.1.-31.3.	2014 1.1.-31.3.
Cash flows from operating activities			
Loss for the period		(14,552)	(26,721)
Adjustments for:			
Depreciation and amortisation		17,011	17,296
Other operating items	18	(1,295)	(3,124)
Working capital from (to) operations		1,164	(12,549)
Net change in operating assets and liabilities	19	116,523	133,920
Net cash from operating activities		<u>117,687</u>	<u>121,371</u>
Cash flows used in investing activities:			
Acquisition of operating assets		(25,879)	(27,413)
Proceeds from the sale of operating assets		123	232
Acquisition of intangible assets		(257)	(530)
Capitalised deferred cost		(211)	(2,995)
Non-current receivables, change		(2,982)	(1,654)
Marketable securities, change		(8,405)	(1,586)
Net cash used in investing activities		<u>(37,611)</u>	<u>(33,946)</u>
Cash flows from (used in) financing activities:			
Proceeds from long term borrowings		23,660	0
Repayment of long term borrowings		(3,780)	(29,138)
Net cash from (used in) financing activities		<u>19,880</u>	<u>(29,138)</u>
Increase in cash and cash equivalents		99,956	58,287
Effect of exchange rate fluctuations on cash held		(2,063)	388
Cash and cash equivalents at beginning of the year		<u>184,762</u>	<u>191,538</u>
Cash and cash equivalents at 31 March		<u><u>282,655</u></u>	<u><u>250,213</u></u>
Investment and financing without cash flow effect:			
Dividend issued		(17,943)	(19,091)
Trade and other payables		17,943	19,091

Information on interest paid and received are provided in note 20.

The notes on pages 8 to 14 are an integral part of these interim 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 three months ended 31 March 2015 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 2014 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 accounting

These interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. They do not include all the information required 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 2014.

These interim financial statements were approved for issue by the Board of Directors on 29 April 2015.

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 expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2014.

a. Measurement of fair values

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 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 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 three months ended 31 March

	Route network		Tourism services		Total	
	2015	2014	2015	2014	2015	2014
External revenue	168,740	175,573	16,920	15,612	185,660	191,185
Inter-segment revenue	31,480	32,874	924	368	32,404	33,242
Segment revenue	200,220	208,447	17,844	15,980	218,064	224,427
Segment EBITDAR*	6,516	(729)	14	(921)	6,530	(1,650)
Segment EBITDA	228	(8,502)	(2,170)	(3,315)	(1,942)	(11,817)
Loss before taxes	(14,170)	(27,063)	(2,606)	(4,142)	(16,776)	(31,205)
Segment assets	763,652	721,414	30,835	29,513	794,487	750,927

Reconciliation of reportable segment income

	2015	2014
	1.1.-31.3.	1.1.-31.3.
Total loss for reportable segments	(16,776)	(31,205)
Unallocated amounts:		
Other corporate expenses	(1,618)	(2,082)
Share of profit (loss) of equity accounted investees	90	(75)
Consolidated loss before income tax	(18,304)	(33,362)

Other material items 31 March 2015

	Reportable segment	Adjustments	Consolidated
Segment EBITDAR*	6,530	(326)	6,204
Segment EBITDA	(1,942)	(326)	(2,268)

* 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. Operating income

Transport revenue is specified as follows:

	2015	2014
	1.1.-31.3.	1.1.-31.3.
Passengers	118,157	110,392
Cargo and mail	10,182	11,188
Total transport revenue	<u>128,339</u>	<u>121,580</u>

Other operating revenue is specified as follows:

Sale at airports and hotels	12,503	13,558
Revenue from tourism	14,201	13,303
Aircraft and cargo handling services	6,535	8,132
Maintenance revenue	516	9,141
Gain on sale of operating assets	103	69
Other operating revenue	3,699	3,533
Total other operating revenue	<u>37,557</u>	<u>47,736</u>

7. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	35,385	37,966
Salary-related expenses	11,302	12,107
Other personnel expenses	10,400	10,816
Total salaries and personnel expenses	<u>57,087</u>	<u>60,889</u>

Aviation expenses are specified as follows:

Aircraft fuel	43,610	47,971
Aircraft lease	5,688	6,007
Aircraft handling, landing and communication	14,882	14,372
Aircraft maintenance expenses	17,723	21,067
	<u>81,903</u>	<u>89,417</u>

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures	5,058	5,569
Communication	4,363	4,422
Advertising	5,963	5,812
Booking fees and commission expenses	12,377	12,256
Cost of goods sold	4,213	4,427
Customer services	3,997	3,574
Tourism expenses	6,989	7,151
Allowance for bad debt	(182)	3,834
Other operating expenses	6,575	7,230
Total other operating expenses	<u>49,353</u>	<u>54,275</u>

Notes, contd.:

8. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2015	2014
	1.1.-31.3.	1.1.-31.3.
Interest income on bank deposits	437	330
Other interest income	138	130
Net foreign exchange gain	1,852	0
Finance income total	<u>2,427</u>	<u>460</u>
Interest expenses on loans and borrowings	1,364	1,735
Other interest expenses	178	163
Net foreign exchange loss	0	1,249
Finance costs total	<u>1,542</u>	<u>3,147</u>
Net finance income (costs)	885	(2,687)

9. Operating assets

Aquisition of operating assets in the first three months of 2015 amounted to USD 25.9 million. Included is one Boeing 757 aircraft and overhaul of own engines of USD 14.0 million.

10. Equity

At the Company's annual general meeting held 11 March 2015 a payment of dividend to shareholders in the amount of USD 17.9 million was approved. The dividend was paid in April.

Reserves are specified as follows:

	Hedging	Translation	Total
	reserve	reserve	reserves
Reserves 1.1.2014	(108)	31,814	31,706
Changes during the period	(2,347)	799	(1,548)
Reserves 31.3.2014	<u>(2,455)</u>	<u>32,613</u>	<u>30,158</u>
Reserves 1.1.2015	(23,941)	27,136	3,195
Changes during the period	7,033	(3,963)	3,070
Reserves 31.3.2015	<u>(16,908)</u>	<u>23,173</u>	<u>6,265</u>

11. 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.

	31.3.2015	31.12.2014
Non-current loans and borrowings are specified as follows:		
Secured bank loans	46,903	49,755
Unsecured loans	33,884	12,179
	<u>80,787</u>	<u>61,934</u>
Current maturities	(12,230)	(12,263)
Total non-current loans and borrowings	<u>68,557</u>	<u>49,671</u>

Terms and debt repayment schedule:

		Nominal		Total	
	Currency	interest	Year of	remaining balance	
		rates	maturity	31.3.2015	31.12.2014
Secured bank loan	USD	5.6%	2014-2018	45,254	47,974
Secured bank loan	ISK	7.2%	2017-2023	895	968
Secured bank loan, indexed	ISK	6.3%	2021-2028	754	813
Unsecured bond issue	USD	4.3%	2020	23,585	0
Unsecured bond issue, indexed	ISK	5.7%	2023	10,299	12,179
Total interest-bearing liabilities				<u>80,787</u>	<u>61,934</u>

Notes, contd.:

12. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	2015	2014
Repayments in 2015 (2015: 9 months)	8,368	12,263
Repayments in 2016	12,572	12,684
Repayments in 2017	12,638	12,755
Repayments in 2018	7,994	8,125
Repayments in 2019	2,259	2,388
Subsequent repayments	36,956	13,719
Total loans and borrowings	<u>80,787</u>	<u>61,934</u>

13. Financial instruments and fair values

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

	31.3.2015		31.12.2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives, included in loans and receivables	7,508	7,508	2,016	2,016
Short term investments	39,288	39,288	30,879	30,879
Unsecured bond issue	(33,884)	(33,365)	(12,179)	(12,479)
Secured bond loans	(46,903)	(48,603)	(49,755)	(52,092)
Derivatives, included in payables and prepayments .	(28,421)	(28,421)	(31,925)	(31,925)
Total	<u>(62,412)</u>	<u>(63,593)</u>	<u>(60,964)</u>	<u>(63,601)</u>

14. Off-balance sheet items

As a lessee the Group has in place operating leases for 9 aircraft at the end of March 2015. 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 March 2015 the leases are payable as follows in nominal amounts for each year:

				Total
	Real estate	Aircraft	Other	31.3.2015
In Q2 - Q4 2015	9,699	17,048	4,209	30,957
In the year 2016	15,291	16,443	1,820	33,555
In the year 2017	14,115	13,113	823	28,051
In the year 2018	13,979	11,211	5	25,195
In the year 2019	13,823	5,010	0	18,833
Subsequent	163,059	5,565	0	168,624
Total	<u>229,968</u>	<u>68,390</u>	<u>6,857</u>	<u>305,215</u>

15. Guarantees

IG Invest, a former subsidiary of the Company, has signed an agreement with Boeing for the purchase of one Boeing 787 Dreamliner aircraft to be delivered in the year 2017. Despite the disposal of IG Invest, Icelandair Group is still guarantor for these capital commitments.

As a part of the financial restructuring of the Company's balance sheet in 2010 the Company divested assets to its creditors for USD 59.1 million. Icelandair Group guarantees that the final sale price will be at least USD 31.4 million (ISK 4.0 billion), however the maximum guarantee is USD 3.9 million (ISK 0.5 billion). Based on the managements estimate the Company has fully provided for potential losses due to the guarantee.

Notes, contd.:

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.

17. Group entities

The Company held eleven subsidiaries at the end of March 2015. The subsidiaries included in the 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%
Loftleiðir - 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 15 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:

	2015	2014
	1.1.-31.3.	1.1.-31.3.
Expensed deferred cost	2,891	3,079
Exchange rate differences	(241)	432
Gain on sale of operating assets	(103)	(69)
Share in (profit) loss of associates	(90)	75
Income tax	(3,752)	(6,641)
Other operating items total	<u>(1,295)</u>	<u>(3,124)</u>

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

Inventories, decrease (increase)	1,552	(1,350)
Trade and other receivables, increase	(18,925)	(22,863)
Trade and other payables, increase	10,606	21,484
Deferred income, increase	123,290	136,649
Net change in operating assets and liabilities	<u>116,523</u>	<u>133,920</u>

20. Additional cash flow information:

Interest expenses paid	1,978	3,022
Interest income received	477	208

Notes, contd.:

21. Ratios

The Group's primary ratios are specified as follows:

	31.3.2015	31.12.2014
Current ratio	0.84	0.83
Equity ratio	0.34	0.43
Intrinsic value of share capital	8.27	9.00

22. Subsequent event

On 15 April the Internal Revenue Board issued a ruling where a decision made by the Director of Internal Revenue was confirmed. The ruling disallows the Company to recognize as expenses for tax purposes certain interest expenses on loans that were transferred to the Company as a result of a reverse acquisition in 2006. The management does not agree with the ruling and an appeal to the District Court of Reykjavik will be made. The effect of the ruling has not been recognized in the interim financial statements, but if the court case will be lost the Company's equity would be reduced by approximately USD 10 million.

23. Significant accounting policies

The accounting policies and methods of computation applied in these 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 2014.

These 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.