

**Icelandair Group hf.**  
Condensed Consolidated  
Interim Financial Statements  
1 January - 30 September 2015

USD

# Contents

---

Endorsement and Statement by the Board of Directors and the CEO .....	3
Consolidated Statement of Comprehensive Income .....	4
Consolidated Statement of Financial Position .....	5
Consolidated Statement of Changes in Equity .....	6
Consolidated Statement of Cash Flows .....	7
Notes to the Consolidated Financial Statements .....	8

## 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 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, profit for the period from 1 January to 30 September amounted to USD 111.0 million. Total comprehensive profit for the period was USD 124.5 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 471.6 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 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 nine month period ended 30 September 2015, its assets, liabilities and consolidated financial position as at 30 September 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 30 September and confirm them by means of their signatures.

Reykjavík, 29 October 2015.

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 30 2015

	Notes	2015 1.7.-30.9.	2014 1.7.-30.9.	2015 1.1.-30.9.	2014 1.1.-30.9.
<b>Operating income</b>					
Transport revenue .....	5	332.932	320.775	685.686	662.273
Aircraft and aircrew lease .....		19.798	17.060	58.243	55.560
Other operating revenue .....	5	76.716	80.911	165.804	189.983
		<u>429.446</u>	<u>418.746</u>	<u>909.733</u>	<u>907.816</u>
<b>Operating expenses</b>					
Salaries and other personnel expenses .....		74.627	69.753	203.073	208.047
Aviation expenses .....		128.012	152.519	325.551	362.572
Other operating expenses .....		75.932	72.591	182.237	181.378
	6	<u>278.571</u>	<u>294.863</u>	<u>710.861</u>	<u>751.997</u>
<b>Operating profit before depreciation and amortisation (EBITDA)</b> .....		150.875	123.883	198.872	155.819
Depreciation and amortisation .....		( 23.869)	( 21.368)	( 62.752)	( 58.054)
<b>Operating profit before net finance costs (EBIT)</b> .....		127.006	102.515	136.120	97.765
Finance income .....		5.039	4.755	8.736	4.921
Finance costs .....		( 1.672)	( 1.109)	( 4.954)	( 5.038)
<b>Net finance income (costs)</b> .....	7	<u>3.367</u>	<u>3.646</u>	<u>3.782</u>	<u>( 117)</u>
Share of profit (loss) of associates, net of tax .....		381	28	471	( 45)
<b>Profit before tax</b> .....		130.754	106.189	140.373	97.603
Income tax .....		( 27.611)	( 20.388)	( 29.417)	( 18.723)
<b>Profit from continuing operations</b> .....		<u>103.143</u>	<u>85.801</u>	<u>110.956</u>	<u>78.880</u>
<b>Discontinued operation</b>					
Profit from discontinued operation, net of tax .....		0	0	0	2.593
<b>Profit for the period</b> .....		<u>103.143</u>	<u>85.801</u>	<u>110.956</u>	<u>81.473</u>
<b>Other comprehensive income:</b>					
Foreign currency translation differences of foreign operations .....		1.949	( 4.161)	( 413)	( 3.479)
Net profit on hedge of investment, net of tax .....		0	16	0	80
Effective portion of changes in fair value of cash flow hedge, net of tax .....		( 6.644)	( 1.592)	13.980	( 1.555)
<b>Other comprehensive (loss) profit for the period</b> .....		<u>( 4.695)</u>	<u>( 5.737)</u>	<u>13.567</u>	<u>( 4.954)</u>
<b>Total comprehensive income for the period</b> .....		<u>98.448</u>	<u>80.064</u>	<u>124.523</u>	<u>76.519</u>
<b>Profit attributable to:</b>					
Owners of the Company .....		103.127	85.734	110.977	81.381
Non-controlling interest .....		16	67	( 21)	92
<b>Profit for the period</b> .....		<u>103.143</u>	<u>85.801</u>	<u>110.956</u>	<u>81.473</u>
<b>Total Comprehensive income attributable to:</b>					
Owners of the Company .....		98.425	80.020	124.546	76.444
Non-controlling interest .....		22	44	( 24)	75
<b>Total comprehensive income for the period</b> .....		<u>98.447</u>	<u>80.064</u>	<u>124.522</u>	<u>76.519</u>
<b>Earnings per share:</b>					
Basic earnings per share expressed in USD cent per share .....		2,07	1,73	2,23	1,64
Diluted earnings per share expressed in USD cent per share .....		2,07	1,73	2,23	1,64
<b>Earnings per share from continuing operations:</b>					
Basic earnings per share expressed in USD cent per share .....		2,07	1,73	2,23	1,59
Diluted earnings per share expressed in USD cent per share .....		2,07	1,73	2,23	1,59

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

## Consolidated Statement of Financial Position as at 30 September 2015

	Notes	30.9.2015	31.12.2014
<b>Assets</b>			
Operating assets .....	8	353.138	319.340
Intangible assets and goodwill .....		173.762	175.973
Investments in associates .....		18.678	2.324
Deferred cost .....		137	153
Non-current receivables and deposits .....		26.251	16.413
Non-current assets		571.966	514.203
Inventories .....		25.388	22.906
Trade and other receivables .....		133.081	96.470
Marketable securities .....		28.472	30.879
Cash and cash equivalents .....		256.553	184.762
Current assets		443.494	335.017
<b>Total assets</b>		1.015.460	849.220
<b>Equity</b>			
Share capital .....		40.576	40.576
Share premium .....		154.705	154.705
Reserves .....	9	16.764	3.195
Retained earnings .....		259.405	166.371
Equity attributable to equity holders of the Company		471.450	364.847
Non-controlling interest .....		184	208
Total equity		471.634	365.055
<b>Liabilities</b>			
Loans and borrowings .....	10	63.700	49.671
Other payables .....		7.540	8.291
Deferred tax liabilities .....		60.053	24.681
Non-current liabilities		131.293	82.643
Loans and borrowings .....	10	12.508	12.263
Trade and other payables .....		220.093	214.315
Deferred income .....		179.932	174.944
Current liabilities		412.533	401.522
Total liabilities		543.826	484.165
<b>Total equity and liabilities</b>		1.015.460	849.220

The notes on pages 8 to 14 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 2015

<b>Attributable to equity holders of the Company</b>							
	<b>Share capital</b>	<b>Share premium</b>	<b>Reserves</b>	<b>Retained earnings</b>	<b>Total</b>	<b>Non-con- trolling interest</b>	<b>Total equity</b>
<b>1 January to 30 September 2014</b>							
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
 <b>1 January to 30 September 2015</b>							
Equity 1.1.2015 .....	40.576	154.705	3.195	166.371	364.847	208	365.055
Total comprehensive income .....			13.569	110.977	124.546	( 24 )	124.522
Dividend (0.50 USD cent per share) .				( 17.943 )	( 17.943 )		( 17.943 )
Equity 30.9.2015 .....	40.576	154.705	16.764	259.405	471.450	184	471.634

Information on changes in reserves are provided in note 9.

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

## Consolidated Statement of Cash Flows for the nine months ended 30 September 2015

	Notes	2015 1.7.-30.9.	2014 1.7.-30.9.	2015 1.1.-30.9	2014 1.1.-30.9
<b>Cash flows from operating activities</b>					
Profit for the period .....		103.143	85.801	110.956	81.473
Adjustments for:					
Depreciation and amortisation .....		23.869	21.368	62.752	58.054
Other operating items .....	18	30.394	28.042	34.473	33.405
Working capital from operations		<u>157.406</u>	<u>135.211</u>	<u>208.181</u>	<u>172.932</u>
Net change in operating assets and liabilities .....	19	( 153.321 )	( 129.444 )	315	37.831
Net cash from operating activities		<u>4.085</u>	<u>5.767</u>	<u>208.496</u>	<u>210.763</u>
<b>Cash flows used in investing activities:</b>					
Acquisition of operating assets .....		( 38.893 )	( 17.589 )	( 94.760 )	( 56.230 )
Proceeds from the sale of operating assets .....		1.581	284	1.886	677
Acquisition of intangible assets .....		( 104 )	( 373 )	( 843 )	( 1.488 )
Deferred cost, change .....		( 7.546 )	( 10.313 )	( 14.013 )	( 12.158 )
Investment in associates, change .....		( 15.711 )	0	( 15.711 )	0
Non-current receivables, change .....		( 7.430 )	432	( 11.414 )	2.024
Marketable securities, change .....		7.838	( 10.824 )	2.420	( 19.163 )
Net cash used in investing activities		<u>( 60.265 )</u>	<u>( 38.383 )</u>	<u>( 132.435 )</u>	<u>( 86.338 )</u>
<b>Cash flows used in financing activities:</b>					
Dividend paid .....		0	0	( 17.943 )	( 18.994 )
Proceeds from non-current borrowing .....		0	0	23.660	0
Repayment of non-current borrowings .....		( 2.868 )	( 3.622 )	( 9.421 )	( 66.682 )
Net cash used in financing activities		<u>( 2.868 )</u>	<u>( 3.622 )</u>	<u>( 3.704 )</u>	<u>( 85.676 )</u>
<b>Increase in cash and cash equivalents .....</b>		<b>( 59.048 )</b>	<b>( 36.238 )</b>	<b>72.357</b>	<b>38.749</b>
<b>Effect of exchange rate fluctuations on cash held .....</b>		<b>698</b>	<b>( 3.179 )</b>	<b>( 566 )</b>	<b>( 2.711 )</b>
<b>Cash and cash equivalents at beginning of the period ...</b>		<b><u>314.903</u></b>	<b><u>266.993</u></b>	<b><u>184.762</u></b>	<b><u>191.538</u></b>
<b>Cash and cash equivalents at 30 September .....</b>		<b><u>256.553</u></b>	<b><u>227.576</u></b>	<b><u>256.553</u></b>	<b><u>227.576</u></b>

The notes on pages 8 to 14 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 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](http://www.icelandairgroup.is) and at The Icelandic Stock Exchange website, [www.nasdaqomx.com](http://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 October 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.:

### 4. 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 Fjárnvaka - 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 2015

	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 .....	374.211	804.293	54.819	104.002	429.030	908.295
Inter-segment revenue .....	37.251	102.019	4.520	7.350	41.771	109.369
Segment revenue .....	411.462	906.312	59.339	111.352	470.801	1.017.664
Segment EBITDAR* .....	150.886	212.122	12.841	17.514	163.727	229.636
Segment EBITDA .....	145.046	193.767	9.629	9.470	154.675	203.237
Profit before taxes .....	125.376	137.232	8.123	6.498	133.499	143.730
Segment assets .....		810.449		50.775		861.224

### Reportable segments for the nine months ended 30 September 2014

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

### Reconciliation of reportable segment income

	2015	2014
	1.1.-30.9.	1.1.-30.9.
Total profit for reportable segments .....	143.730	100.553
Unallocated amounts:		
Other corporate expenses .....	( 3.828 )	( 2.905 )
Share of profit (loss) of equity accounted investees .....	471	( 45 )
Consolidated profit before income tax .....	140.373	97.603

### Other material items 30 September 2015

	Reportable segment	Adjustments	Consolidated
Segment EBITDAR* .....	229.636	( 4.365 )	225.271
Segment EBITDA .....	203.237	( 4.365 )	198.872

\* EBITDAR means EBITDA before operating lease expenses.

### Seasonality

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

## Notes, contd.:

### 5. Operating income

Transport revenue is specified as follows:

	2015 1.7.-30.9.	2014 1.7.-30.9.	2015 1.1.-30.9.	2014 1.1.-30.9.
Passengers .....	321.845	309.758	654.242	628.764
Cargo and mail .....	11.087	11.017	31.444	33.509
Total transport revenue .....	<u>332.932</u>	<u>320.775</u>	<u>685.686</u>	<u>662.273</u>

Other operating revenue is specified as follows:

Sale at airports and hotels .....	22.095	26.899	52.030	61.358
Revenue from tourism .....	40.677	39.326	77.108	76.951
Aircraft and cargo handling services .....	7.570	8.757	21.219	25.656
Maintenance revenue .....	1.684	1.892	2.733	14.453
Gain on sale of operating assets .....	667	75	825	214
Other operating revenue .....	4.023	3.962	11.889	11.351
Total other operating revenue .....	<u>76.716</u>	<u>80.911</u>	<u>165.804</u>	<u>189.983</u>

### 6. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries .....	52.103	48.409	133.022	137.077
Salary-related expenses .....	9.376	8.680	34.512	34.570
Other personnel expenses .....	13.148	12.664	35.539	36.400
Total salaries and personnel expenses .....	<u>74.627</u>	<u>69.753</u>	<u>203.073</u>	<u>208.047</u>

Aviation expenses are specified as follows:

Aircraft fuel .....	76.843	95.783	187.558	218.385
Aircraft lease .....	5.932	5.732	18.018	18.771
Aircraft handling, landing and communication .....	31.679	29.358	68.413	65.961
Aircraft maintenance expenses .....	13.558	21.646	51.562	59.455
Total aviation expenses .....	<u>128.012</u>	<u>152.519</u>	<u>325.551</u>	<u>362.572</u>

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures .....	6.063	6.212	16.771	17.067
Communication .....	4.323	4.166	12.987	12.840
Advertising .....	5.913	5.991	16.321	15.862
Booking fees and commission expenses .....	14.234	12.485	38.226	35.727
Cost of goods sold .....	6.642	7.560	16.537	18.270
Customer services .....	6.723	7.270	16.780	16.618
Tourism expenses .....	24.782	25.492	45.259	47.276
Allowance for bad debt .....	713	( 3.367 )	915	( 2.597 )
Other operating expenses .....	6.539	6.782	18.441	20.315
Total other operating expenses .....	<u>75.932</u>	<u>72.591</u>	<u>182.237</u>	<u>181.378</u>

## Notes, contd.:

### 7. Finance income and finance costs

Finance income and finance costs are specified as follows:

	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>1.7.-30.9.</b>	<b>1.7.-30.9.</b>	<b>1.1.-30.9.</b>	<b>1.1.-30.9.</b>
Interest income on bank deposits .....	419	149	1.425	612
Other interest income .....	178	146	558	884
Net foreign exchange gain .....	4.442	4.460	6.753	3.425
Finance income total .....	<u>5.039</u>	<u>4.755</u>	<u>8.736</u>	<u>4.921</u>
Interest expenses on loans and borrowings .....	1.456	959	4.361	4.523
Other interest expenses .....	216	150	593	515
Finance costs total .....	<u>1.672</u>	<u>1.109</u>	<u>4.954</u>	<u>5.038</u>
Net finance income (costs) .....	<u>3.367</u>	<u>3.646</u>	<u>3.782</u>	<u>( 117 )</u>

### 8. Operating assets

Aquisition of operating assets in the first nine months of 2015 amounted to USD 94.8 million. Included are two Boeing 757 aircraft, three Bombardier Q400 aircraft, two spare engines, overhaul of own engines, aircraft spare parts in the amount of USD 67.2 million.

### 9. Equity

Reserves are specified as follows:

	<b>Hedging</b>	<b>Translation</b>	<b>Total</b>
	<b>reserve</b>	<b>reserve</b>	<b>reserves</b>
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>
Reserves 1.1.2015 .....	( 23.941 )	27.136	3.195
Changes during the period .....	13.980	( 411 )	13.569
Reserves 30.9.2015 .....	<u>( 9.961 )</u>	<u>26.725</u>	<u>16.764</u>

### 10. 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.

	<b>30.9.2015</b>	<b>31.12.2014</b>
Non-current loans and borrowings are specified as follows:		
Secured bank loans .....	41.292	49.755
Unsecured loans .....	34.916	12.179
	<u>76.208</u>	<u>61.934</u>
Current maturities .....	( 12.508 )	( 12.263 )
Total non-current loans and borrowings .....	<u>63.700</u>	<u>49.671</u>

Terms and debt repayment schedule:

		<b>Nominal</b>		<b>Total</b>	
	<b>Currency</b>	<b>interest</b>	<b>Year of</b>	<b>remaining balance</b>	
		<b>rates</b>	<b>maturity</b>	<b>30.9.2015</b>	<b>31.12.2014</b>
Secured bank loan .....	USD	5,9%	2017-2022	39.580	47.974
Secured bank loan .....	ISK	8,0%	2023	883	968
Secured bank loan, indexed .....	ISK	6,3%	2021-2028	829	813
Unsecured bond issue .....	USD	4,3%	2020	23.592	0
Unsecured bond issue, indexed ....	ISK	5,7%	2023	11.324	12.179
Total interest-bearing liabilities .....				<u>76.208</u>	<u>61.934</u>

## Notes, contd.:

### 11. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	2015	2014
Repayments in 2015 (3 months)(2014: 12 months) .....	2.864	12.263
Repayments in 2016 .....	12.655	12.684
Repayments in 2017 .....	12.728	12.755
Repayments in 2018 .....	8.082	8.125
Repayments in 2019 .....	2.364	2.388
Subsequent repayments .....	37.515	13.719
Total loans and borrowings .....	76.208	61.934

### 12. 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:

	30.9.2015		31.12.2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives, included in loans and receivables .....	5.960	5.960	2.016	2.016
Marketable securities .....	28.472	28.472	30.879	30.879
Unsecured bond issue .....	( 34.916)	( 33.347)	( 12.179)	( 12.479)
Secured bond loans .....	( 41.292)	( 41.852)	( 49.755)	( 52.092)
Derivatives, included in payables and prepayments .....	( 10.355)	( 10.355)	( 31.925)	( 31.925)
Total .....	( 52.131)	( 51.122)	( 60.964)	( 63.601)

### 13. Off-balance sheet items

As a lessee the Group has in place operating leases for 9 aircraft at the end of September 2015. The leases are for 3 Boeing 757 aircraft, 3 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 2041. At the end of September 2015 the leases are payable as follows in nominal amounts for each year:

				Total
	Real estate	Aircraft	Other	30.9.2015
In Q4 2015 .....	2.854	5.055	1.039	8.947
In the year 2016 .....	13.136	18.728	3.339	35.204
In the year 2017 .....	21.088	15.663	1.295	38.046
In the year 2018 .....	21.205	13.761	1.072	36.038
In the year 2019 .....	20.884	7.560	1.042	29.486
Subsequent .....	302.026	8.115	17.885	328.026
Total .....	381.193	68.882	25.672	475.747

### 14. 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.:

### 15. 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 when the agreement was finalized. 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.

### 16. Reassessment of taxes

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 is in process. 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.

### 17. Group entities

The Company held eleven subsidiaries at the end of September 2015. The subsidiaries included in the consolidated interim financial statements are as follows:

	<b>Share</b>
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%
Lofleiðir - 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:

	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>1.7.-30.9.</b>	<b>1.7.-30.9.</b>	<b>1.1.-30.9</b>	<b>1.1.-30.9</b>
Expensed deferred cost .....	( 32 )	9.210	5.809	15.689
Exchange rate differences .....	250 (	1.455 )	543 (	624 )
Gain on sale of operating assets .....	( 666 ) (	75 ) (	825 ) (	214 )
Gain on sale of shares .....	0	2	0 (	214 )
Share in (profit) loss of associates .....	( 381 ) (	28 ) (	471 )	45
Income tax .....	31.223	20.388	29.417	18.723
Other operating items total .....	<u>30.394</u>	<u>28.042</u>	<u>34.473</u>	<u>33.405</u>

## Notes, contd.:

---

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

Inventories, (increase) decrease .....	( 202 )	63	( 2.520 )	( 1.034 )
Trade and other receivables, (increase) decrease ...	( 7.320 )	27.305	( 12.355 )	4.060
Trade and other payables, (decrease) increase .....	( 15.480 )	( 18.155 )	10.101	31.690
Deferred income, (decrease) increase .....	( 130.319 )	( 138.657 )	5.089	3.115
Net change in operating assets and liabilities .....	( 153.321 )	( 129.444 )	315	37.831

### 20. Additional cash flow information:

Interest expenses paid .....	1.399	1.011	4.484	5.633
Interest income received .....	259	227	594	799

### 21. Ratios

The Group's primary ratios are specified as follows:

	30.9.2015	31.12.2014
Current ratio .....	1,08	0,83
Equity ratio .....	0,46	0,43
Intrinsic value of share capital .....	11,62	9,00

### 22. 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.