

Icelandair Group hf.
Condensed Consolidated
Interim Financial Statements
1 January - 30 September 2017

USD

Icelandair Group hf.
Reykjavíkurlugvöllur
101 Reykjavík
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 2017 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 2017 amounted to USD 77.7 million. Total comprehensive profit for the period was USD 70.6 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 618.6 million, including share capital in the amount of USD 39.5 million. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity.

On August 8th an agreement was made to merge Iceland Travel and Allrahanda/Grayline. The objective of the merger is to further improve services to customers and at the same time achieve rationalisation in the companies' operations. Following the merger, Icelandair Group will own 70% of the merged company. The merger is subject to the results of due diligence and the approval of regulatory authorities.

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements for the nine months ended 30 September 2017 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 2017, its assets, liabilities and consolidated financial position as at 30 September 2017 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 2017 and confirm them by means of their signatures.

Reykjavík, 26 October 2017.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board

Ásthildur M. Otharsdóttir

Georg Lúðvíksson

Katrín Olga Jóhannesdóttir

Ómar Benediktsson

CEO:

Björgólfur Jóhannsson

Consolidated Statement of Comprehensive Income for the period from 1 January to 30 September 2017

	Notes	2017 1.7.-30.9.	2016 1.7.-30.9.	2017 1.1.-30.9.	2016 1.1.-30.9.
Operating income					
Transport revenue	5	408.066	373.192	829.806	762.037
Aircraft and aircrew lease		18.246	19.149	59.305	66.199
Other operating revenue	5	109.718	93.569	238.178	200.866
		<u>536.030</u>	<u>485.910</u>	<u>1.127.289</u>	<u>1.029.102</u>
Operating expenses					
Salaries and other personnel expenses		118.116	94.737	330.164	256.078
Aviation expenses		148.592	135.465	345.976	331.658
Other operating expenses		108.225	93.959	264.036	223.974
	6	<u>374.933</u>	<u>324.161</u>	<u>940.176</u>	<u>811.710</u>
Operating profit before depreciation and amortisation (EBITDA)		161.097	161.749	187.113	217.392
Depreciation and amortisation		(34.291)	(29.622)	(91.028)	(74.588)
Operating profit before net finance income (EBIT)		126.806	132.127	96.085	142.804
Finance income		4.487	510	12.255	2.454
Finance costs		(4.090)	(2.175)	(11.843)	(3.313)
Net finance income (expenses)	7	<u>397</u>	<u>(1.665)</u>	<u>412</u>	<u>(859)</u>
Share in (loss) profit of associates, net of tax		(109)	363	422	360
Profit before tax		127.094	130.825	96.919	142.305
Income tax		(25.755)	(28.060)	(19.219)	(30.367)
Profit for the period		<u>101.339</u>	<u>102.765</u>	<u>77.700</u>	<u>111.938</u>
Other comprehensive income:					
Foreign currency translation differences of foreign operations		(2.532)	7.683	6.478	11.205
Effective portion of changes in fair value of cash flow hedge, net of tax		3.018	1.879	(13.565)	30.179
Other comprehensive profit (loss) for the period		<u>486</u>	<u>9.562</u>	<u>(7.087)</u>	<u>41.384</u>
Total comprehensive profit for the period		<u>101.825</u>	<u>112.327</u>	<u>70.613</u>	<u>153.322</u>
Profit attributable to:					
Owners of the Company		101.242	102.628	77.480	111.723
Non-controlling interest		97	137	220	215
Profit for the period		<u>101.339</u>	<u>102.765</u>	<u>77.700</u>	<u>111.938</u>
Total Comprehensive profit attributable to:					
Owners of the Company		101.773	112.158	69.670	153.073
Non-controlling interest		52	169	943	249
Total comprehensive profit for the period		<u>101.825</u>	<u>112.327</u>	<u>70.613</u>	<u>153.322</u>
Earnings per share:					
Basic earnings per share in US cent per share		2,07	2,07	1,59	2,25
Diluted earnings per share in US cent per share		2,07	2,07	1,59	2,25

The notes on pages 8 to 16 are an integral part of these interim condensed consolidated financial statements.

Consolidated Statement of Financial Position as at 30 September 2017

	Notes	30.9.2017	31.12.2016
Assets			
Operating assets	8	642.845	602.615
Intangible assets and goodwill		179.244	174.704
Investments in associates		27.508	23.497
Deferred cost		15	63
Receivables and deposits		99.276	74.098
Non-current assets		948.888	874.977
Inventories		23.517	23.963
Trade and other receivables		201.453	139.280
Assets held for sale		7.107	4.148
Short term investments		3.947	23.236
Cash and cash equivalents		260.130	226.889
Current assets		496.154	417.516
Total assets		1.445.042	1.292.493
Equity			
Share capital		39.532	40.576
Share premium		140.519	154.705
Reserves	9	151.395	119.322
Retained earnings		285.776	253.223
Equity attributable to equity holders of the Company		617.222	567.826
Non-controlling interest		1.330	387
Total equity		618.552	568.213
Liabilities			
Loans and borrowings	10	235.836	196.722
Payables		17.452	13.289
Deferred tax liabilities		73.516	58.179
Non-current liabilities		326.804	268.190
Loans and borrowings	10	48.125	45.660
Trade and other payables		244.627	210.543
Deferred income		206.934	199.887
Current liabilities		499.686	456.090
Total liabilities		826.490	724.280
Total equity and liabilities		1.445.042	1.292.493

The notes on pages 8 to 16 are an integral part of these interim condensed consolidated financial statements.

Consolidated Statement of Changes in Equity for the period from 1 January to 30 September 2017

	Attributable to equity holders of the Company					Non-con- trolling interest	Total equity
	Share capital	Share premium	Reserves	Retained earnings	Total		
1 January to 30 September 2016							
Equity 1.1.2016	40.576	154.705	1.400	259.746	456.427	104	456.531
Total comprehensive profit			41.350	111.723	153.073	249	153.322
Effects of profit or loss and dividend received from subsidiaries .			70.364	(70.364)			
Dividend (0.54 US cent per share) ...				(26.968)	(26.968)		(26.968)
Equity 30 September 2016	<u>40.576</u>	<u>154.705</u>	<u>113.114</u>	<u>274.137</u>	<u>582.532</u>	<u>353</u>	<u>582.885</u>
1 January to 30 September 2017							
Equity 1.1.2017	40.576	154.705	119.322	253.223	567.826	387	568.213
Purchase of treasury shares	(1.044)	(14.186)			(15.230)		(15.230)
Total comprehensive profit			(7.810)	77.480	69.670	943	70.613
Effects of profit or loss and dividend received from subsidiaries .			39.883	(39.883)			
Dividend (0.10 US cent per share) ...				(5.044)	(5.044)		(5.044)
Equity 30 September 2017	<u>39.532</u>	<u>140.519</u>	<u>151.395</u>	<u>285.776</u>	<u>617.222</u>	<u>1.330</u>	<u>618.552</u>

Information on changes in reserves are provided in note 9.

The notes on pages 8 to 16 are an integral part of these interim condensed consolidated financial statements.

Consolidated Statement of Cash Flows for the nine months ended 30 September 2017

	Note:	2017 1.7.-30.9.	2016 1.7.-30.9.	2017 1.1.-30.9	2016 1.1.-30.9
Cash flows from operating activities					
Profit for the period		101.339	102.765	77.700	111.938
Adjustments for:					
Depreciation and amortisation		34.291	29.622	91.028	74.588
Other operating items	16	36.110	28.782	27.022	34.976
Working capital from operations		<u>171.740</u>	<u>161.169</u>	<u>195.750</u>	<u>221.502</u>
Net change in operating assets and liabilities	17	(191.489)	(181.102)	799	26.993
Net cash from operating activities		<u>(19.749)</u>	<u>(19.933)</u>	<u>196.549</u>	<u>248.495</u>
Cash flows used in investing activities:					
Acquisition of operating assets		(38.754)	(45.453)	(119.161)	(193.555)
Proceeds from the sale of operating assets		358	548	666	1.026
Acquisition of intangible assets		(946)	(360)	(4.526)	(915)
Capitalised deferred cost		0	(819)	(941)	(9.205)
Investment in associates, change		(2.084)	(1.260)	(2.084)	(1.260)
Non-current receivables, change		(31.882)	(26.376)	(73.539)	(34.246)
Marketable securities, change		20.154	10.025	19.352	16.382
Net cash used in investing activities		<u>(53.154)</u>	<u>(63.695)</u>	<u>(180.233)</u>	<u>(221.773)</u>
Cash flows (used in) from financing activities:					
Purchase of treasury shares		0	0	(15.230)	0
Dividend paid		0	0	(5.044)	(26.968)
Proceeds from non-current borrowing		0	0	40.000	700
Repayment of non-current borrowings		(2.405)	(2.289)	(8.410)	(7.816)
Proceeds from short term borrowings		6	0	3.389	0
Net cash (used in) from financing activities		<u>(2.399)</u>	<u>(2.289)</u>	<u>14.705</u>	<u>(34.084)</u>
(Decrease) increase in cash and cash equivalents		(75.302)	(85.917)	31.021	(7.362)
Effect of exchange rate fluctuations on cash held		(590)	2.898	2.220	4.173
Cash and cash equivalents at beginning of the period		<u>336.022</u>	<u>274.416</u>	<u>226.889</u>	<u>194.586</u>
Cash and cash equivalents at 30 September		<u>260.130</u>	<u>191.397</u>	<u>260.130</u>	<u>191.397</u>

Information on interest paid and received and income tax paid are provided in note 18.

The notes on pages 8 to 16 are an integral part of these interim condensed consolidated 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 2017 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 2016 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 2016.

These interim financial statements were approved for issue by the Board of Directors on 26 October 2017.

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.

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 2016.

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 segments

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 three segments; Route network, Tourism services and Shared services.

Inter-segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Route network

The primary business strategy of the Route Network is to operate flights based on the Hub and Spoke concept between Europe and North America via Iceland, leveraging Iceland's geographical position. Icelandair's Hub and Spoke System is able to maximize flights to and from North America arriving in Iceland with easy connections to Scandinavia, the UK and Continental Europe. 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 last years.

Icelandair Cargo sells and markets the cargo space capacity of Icelandair's aircraft in the route network and in addition operates two dedicated freighters servicing the import and export market to and from Iceland. Loftleidir Icelandic leases and services aircraft to international clients. The aircraft is usually operated under the Icelandair Air Operator Certificate (AOC) and Icelandair Technical Services provides the maintenance service for Loftleidir's clients. Air Iceland Connect is the regional airline that operates scheduled flights within Iceland and to Greenland and Scotland.

Tourism services

The focus of the tourist services business segment is on catering to the growing demand for universal tourist services in Iceland. The segment comprises a wide array of the tourism value chain offering a wide collection of hotel brands and a full service tour operator. Icelandair Hotels is the Company's hotel chain offering four hotel brands through different geographies in Iceland. Iceland Travel is the Company's tour operator and destination manager focusing on offering top quality services to individuals and companies alike.

Shared services

Shared services companies mainly provide services to other Group Companies and partly to third party. Services provided include accounting, HR, treasury and credit management, ground handling, cargo warehousing, insurance and legal services. Shared services also provide financing through internal treasury system and real estate is leased to Group Companies.

Geographic information

The geographic information analyses the Group's revenue as the majority of the Group's clients are outside of Iceland. 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:

	2017	2016
	1.1.-30.9.	1.1.-30.9.
<i>Revenues</i>		
North America	39%	40%
Iceland	22%	21%
West Continental Europe	15%	15%
Scandinavia	7%	8%
United Kingdom	7%	7%
Other	10%	9%
Total revenues	<u>100%</u>	<u>100%</u>

Notes, contd.:

4. contd.:

Reportable segments for the nine months ended 30 September 2017

	Route network	Tourism services	Shared services	Total
External revenue	950.105	165.863	11.321	1.127.289
Inter-segment revenue	71.808	13.477	76.402	161.687
Segment revenue	<u>1.021.913</u>	<u>179.340</u>	<u>87.723</u>	<u>1.288.976</u>
Segment EBITDAR*	180.342	21.429	11.986	213.757
Operating lease expenses	(16.975)	(9.312)	(357)	(26.644)
Segment EBITDA	<u>163.367</u>	<u>12.117</u>	<u>11.629</u>	<u>187.113</u>
Finance income	5.040	1.133	19.036	25.209
Finance costs	(5.406)	(1.150)	(18.241)	(24.797)
Depreciation and amortisation	(81.455)	(4.270)	(5.303)	(91.028)
Share in profit of equity accounted investees	0	264	158	422
Reportable segment profit before tax	<u>81.546</u>	<u>8.094</u>	<u>7.279</u>	<u>96.919</u>
Reportable segment assets	966.348	81.755	1.122.682	2.170.785

Reportable segments for the nine months ended 30 September 2016

External revenue	884.481	131.352	13.269	1.029.102
Inter-segment revenue	76.069	8.387	54.814	139.270
Segment revenue	<u>960.550</u>	<u>139.739</u>	<u>68.083</u>	<u>1.168.372</u>
Segment EBITDAR*	215.639	19.903	7.411	242.953
Operating lease expenses	(15.958)	(9.260)	(343)	(25.561)
Segment EBITDA	<u>199.681</u>	<u>10.643</u>	<u>7.068</u>	<u>217.392</u>
Finance income	6.119	58	6.016	12.193
Finance costs	(3.237)	(2.701)	(7.114)	(13.052)
Depreciation and amortisation	(69.737)	(2.830)	(2.021)	(74.588)
Share in profit of equity accounted investees	32	132	196	360
Reportable segment profit before tax	<u>132.858</u>	<u>5.302</u>	<u>4.145</u>	<u>142.305</u>
Reportable segment assets	930.679	82.793	758.778	1.772.250

*EBITDAR means EBITDA before operating lease expenses.

Notes, contd.:

4. contd.:

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

	2017 1.1.-30.9.	2016 1.1.-30.9.
Revenue		
Total revenue for reportable segments	1.288.976	1.168.372
Elimination of inter-segment revenue	(161.687)	(139.270)
Consolidated revenue	<u>1.127.289</u>	<u>1.029.102</u>

Profit or loss

Consolidated profit before tax	<u>96.919</u>	<u>142.305</u>
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Other material items	Reportable segment totals	Adjust- ments	Consoli- dated totals
1.1.-30.9.2017			
Segment EBITDAR	213.757		213.757
Segment EBITDA	187.113		187.113
Finance income	25.209	(12.954)	12.255
Finance costs	(24.797)	12.954	(11.843)
Depreciation and amortisation	(91.028)		(91.028)
Share in profit of associates	422		422
Capital expenditure	124.628		124.628
1.1.-30.9.2016			
Segment EBITDAR	242.953		242.953
Segment EBITDA	217.392		217.392
Finance income	12.193	(9.739)	2.454
Finance costs	(13.052)	9.739	(3.313)
Depreciation and amortisation	(74.588)		(74.588)
Share in profit of associates	360		360
Capital expenditure	203.675		203.675

Notes, contd.:

5. Operating income

Transport revenue is specified as follows:

	2017	2016	2017	2016
	1.7.-30.9.	1.7.-30.9.	1.1.-30.9	1.1.-30.9
Passengers	390.146	358.593	783.668	723.769
Cargo and mail	17.920	14.599	46.138	38.268
Total transport revenue	<u>408.066</u>	<u>373.192</u>	<u>829.806</u>	<u>762.037</u>

Other operating revenue is specified as follows:

Sale at airports and hotels	33.397	32.655	80.489	68.421
Revenue from tourism	61.485	47.149	117.810	92.120
Aircraft and cargo handling services	5.936	4.882	15.180	19.220
Maintenance revenue	1.210	946	2.959	2.068
Gain on sale of operating assets	0	431	0	736
Other operating revenue	7.690	7.506	21.740	18.301
Total other operating revenue	<u>109.718</u>	<u>93.569</u>	<u>238.178</u>	<u>200.866</u>

6. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	83.023	66.897	222.456	166.704
Salary-related expenses	16.015	11.986	56.148	44.450
Other personnel expenses	19.078	15.854	51.560	44.924
Total salaries and personnel expenses	<u>118.116</u>	<u>94.737</u>	<u>330.164</u>	<u>256.078</u>

Aviation expenses are specified as follows:

Aircraft fuel	82.364	73.056	180.705	168.215
Aircraft lease	5.226	4.375	16.039	15.336
Aircraft handling, landing and communication	41.424	38.884	93.573	87.732
Aircraft maintenance expenses	19.578	19.150	55.659	60.375
Total aviation expenses	<u>148.592</u>	<u>135.465</u>	<u>345.976</u>	<u>331.658</u>

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures	8.333	7.477	22.184	19.475
Communication	6.851	5.983	19.551	16.679
Advertising	5.458	6.837	20.678	20.772
Booking fees and commission expenses	15.359	13.640	47.666	42.368
Cost of goods sold	8.660	8.103	21.892	19.715
Customer services	13.068	10.175	28.085	22.105
Tourism expenses	41.438	33.121	76.886	59.666
Allowance for bad debt	490	523	1.026	1.122
Other operating expenses	8.568	8.100	26.068	22.072
Total other operating expenses	<u>108.225</u>	<u>93.959</u>	<u>264.036</u>	<u>223.974</u>

Notes, contd.:

7. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2017 1.7.-30.9.	2016 1.7.-30.9.	2017 1.1.-30.9	2016 1.1.-30.9
Interest income on bank deposits	311	46	975	933
Other interest income	665	464	2.200	1.203
Net foreign exchange gain	3.511	0	9.080	318
Finance income total	<u>4.487</u>	<u>510</u>	<u>12.255</u>	<u>2.454</u>
Interest expenses on loans and borrowings	3.788	877	10.997	2.655
Other interest expenses	302	216	846	658
Net foreign exchange loss	0	1.082	0	0
Finance costs total	<u>4.090</u>	<u>2.175</u>	<u>11.843</u>	<u>3.313</u>
Net finance income (expense)	397	(1.665)	412	(859)

8. Operating assets

Aquisition of operating assets in the first nine months of 2017 amounted to USD 119.2 million. Included is one Bombardier Q200 aircraft, interior equipment of aircraft, overhaul of own engines and aircraft spare parts in the amount of USD 67.5 million.

9. Equity

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Other reserves	Total reserves
Reserves 1.1.2016	(24.059)	25.459	0	1.400
Share in profit of subsidiaries and associates			114.226	114.226
Dividend received			(43.862)	(43.862)
Changes during the period	30.179	11.171		41.350
Reserves 30.9.2016	<u>6.120</u>	<u>36.630</u>	<u>70.364</u>	<u>113.114</u>
Reserves 1.1.2017	16.423	34.524	68.375	119.322
Share in profit of subsidiaries and associates			85.232	85.232
Dividend received			(45.349)	(45.349)
Changes during the period	(13.565)	5.755		(7.810)
Reserves 30.9.2017	<u>2.858</u>	<u>40.279</u>	<u>108.258</u>	<u>151.395</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.

	30.9.2017	31.12.2016
Non-current loans and borrowings are specified as follows:		
Secured bank loans	60.630	58.195
Unsecured loans	223.331	184.187
	<u>283.961</u>	<u>242.382</u>
Current maturities	(48.125)	(45.660)
Total non-current loans and borrowings	<u>235.836</u>	<u>196.722</u>

Notes, contd.:

10. continued:

Terms and debt repayment schedule:

	Currency	Nominal interest rates	Year of maturity	Total remaining balance	
				30.9.2017	31.12.2016
Secured bank loans	USD	5,2%	2017-2024	14.165	21.082
Secured bank loans	EUR	2,7%	2026	3.547	0
Secured bank loans, indexed	ISK	4,3%	2025	1.863	1.728
Unsecured bond issue	USD	4,9%	2020-2021	212.272	172.527
Unsecured bond issue, indexed	ISK	5,7%	2023	11.059	11.660
Secured bank loans - short term	USD	5,1%	2017	3.418	0
Secured bank loans - short term	ISK	5,4%	2018	37.637	35.385
Total interest-bearing liabilities				283.961	242.382

11. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	2017	2016
Repayments in 2017 (3 months)(2016: 12 months)	43.149	45.660
Repayments in 2018	5.616	5.585
Repayments in 2019	2.714	2.390
Repayments in 2020	26.505	26.175
Repayments in 2021	193.020	152.661
Subsequent repayments	12.957	9.911
Total loans and borrowings	283.961	242.382

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:

	30.9.2017		31.12.2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives, included in loans and receivables	5.647	5.647	20.560	20.560
Short term investments	3.947	3.947	23.236	23.236
Unsecured bond issue	223.331	246.465	(184.187)	(189.963)
Secured loans	60.630	62.973	(58.195)	(58.138)
Derivatives, included in payables and prepayments	(2.250)	(2.250)	(436)	(436)
Total	291.305	316.782	(199.022)	(204.741)

Notes, contd.:

13. Off-balance sheet items

As a lessee the Group has in place operating leases for storage facilities, hotels, equipment and fixtures for its operations, the longest until the year 2041. The Group has also in place operating leases for aircraft which last from 9 months to 5 years. At the end of September 2017 the leases are payable as follows in nominal amounts for each year:

	Real estate	Aircraft	Other	Total 30.9.2017
In Q4 2017	5.489	5.985	5.865	17.339
In the year 2018	22.521	18.132	6.917	47.570
In the year 2019	26.915	12.366	3.438	42.719
In the year 2020	26.678	9.165	2.955	38.798
In the year 2021	26.153	3.594	2.597	32.344
Subsequent	341.971	1.830	35.302	379.103
Total	449.727	51.072	57.074	557.873

14. 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 was 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.

An agreement for sale and leaseback of four Boeing 737 MAX aircraft was signed in May 2017. One aircraft will be delivered in the first quarter of 2018 and three in the first quarter of 2019. Two of the aircraft are Boeing 737 MAX8 and two are Boeing 737 MAX9.

The delivery plan is as follows:

	2018	2019	2020	2021
Boeing 737 Max 8	3	3	2	1
Boeing 737 Max 9		3	3	1
Total	3	6	5	2

15. Group entities

The Company held twelve subsidiaries at the end of September 2017. The subsidiaries included in the consolidated interim financial statements are as follows:

	Share 30.9.2017	Share 30.9.2016
Route network:		
A320 ehf.	100%	100%
Air Iceland Connect ehf.	100%	100%
Feria ehf.	100%	100%
Icelandair ehf.	100%	100%
Icelandair Cargo ehf.	100%	100%
Loftleiðir - Icelandic ehf.	100%	100%
Tourism services:		
Iceland Travel ehf.	100%	100%
Icelandair Hotels ehf.	100%	100%
Shared services:		
Fjárvakur - Icelandair Shared Services ehf.	100%	100%
IceCap Ltd., Guernsey	100%	100%
Icceignir ehf.	100%	100%
IGS ehf.	100%	100%

The subsidiaries further own fourteen subsidiaries that are included in the consolidated interim financial statements. Four of those have non-controlling shareholders.

Notes, contd.:

16. Statement of cash flows

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

	2017	2016	2017	2016
	1.7.-30.9.	1.7.-30.9.	1.1.-30.9	1.1.-30.9
Expensed deferred cost	2.376	2.445	6.833	6.406
Exchange rate differences	7.773	(929)	1.020	(701)
Loss (gain) on sale of operating assets	97	(431)	372	(736)
Share in loss (profit) of associates	109	(363)	(422)	(360)
Income tax	25.755	28.060	19.219	30.367
Other operating items total	36.110	28.782	27.022	34.976

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

	2017	2016	2017	2016
	1.7.-30.9.	1.7.-30.9.	1.1.-30.9	1.1.-30.9
Inventories, decrease (increase)	425	(329)	446	(1.744)
Trade and other receivables, decrease (increase) ...	5.574	6.576	(37.853)	(15.597)
Trade and other payables, (decrease) increase	(32.381)	(29.734)	31.159	38.185
Deferred income, (decrease) increase	(165.107)	(157.615)	7.047	6.149
Net change in operating assets and liabilities	(191.489)	(181.102)	799	26.993

18. Additional cash flow information:

Interest expenses paid	8.062	1.829	12.305	3.602
Interest income received	1.390	1.177	1.605	1.491
Income tax paid	6.439	2.536	16.815	6.533

19. Ratios

The Group's primary ratios are specified as follows:

	30.9.2017	31.12.2016
Current ratio	0,99	0,92
Equity ratio	0,43	0,44
Intrinsic value of share capital	15,65	14,00

20. 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 2016.

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.