Prospectus

8 September 2020

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Icelandair Group hf.

(Incorporated in Iceland as a public limited liability company)

Public offering of a minimum of 20,000,000,000 new shares and admission to listing and trading on NASDAQ Iceland

This prospectus, formed by a Securities Note, a Share Registration Document and a Summary (the "**Prospectus**") has been prepared by Icelandair Group hf. (the "**Issuer**", or the "**Company**" or together with its direct and indirect subsidiaries unless otherwise indicated by the context, the "**Group**"), a public limited liability company incorporated in Iceland, having its headquarters located at the address, Reykjavík Airport, 101 Reykjavík Iceland, with reg. no. 631205-1780, in relation to the public offering and admission to trading on the regulated market Nasdaq Iceland of a minimum of 20,000,000,000 new issued shares, with an authorization to increase by as much as 3,000,000,000 shares in case of oversubscription for a total size of up to 23,000,000,000. Each new share with par value of Icelandic krona ("ISK") 1.00 (the "**New Shares**"), of and by the Company. The offering is a public offering in Iceland (the "**Offering**").

The New Shares shall be referred to as the "New Shares" and the term "Shares" shall refer to all the Company's issued and outstanding shares. The Company's existing shares are, and the New Shares, will be listed on the regulated market Nasdaq Iceland Stock Exchange under the ticker code "ICEAIR". All of the New Shares rank pari passu with one another and each carry one vote. In addition, investors who are allocated New Shares in the Offering will be allocated warrants (the "**Warrants**"). The Warrants will amount to 25% of the nominal value of the New Shares issued as a result of the Offering. The subscription rights under the Warrants may be exercised in separate steps for up to two years in accordance with terms decided upon by the Board of Directors. It shall be noted that the New Shares will be issued within the same share class as the Shares in Icelandair Group. The Company will issue any shares resulting from the exercise of the Warrants separately from the New Shares. The Warrants will be freely tradeable and transferrable, independent of the issued shares, until such time that they can be exercised

The subscription period for the Offering is expected to start at 9:00 GMT on 16 September 2020 and end at 16:00 GMT on 17 September 2020 (the "**Subscription Period**"). The results of the Offering are expected to be published on 18 September 2020. The Subscription Period may not be shortened but may be extended as required by law inter alia in the event of the publication of a supplement to the Prospectus. The Issuer will cancel the Offering if minimum number of subscriptions for the New Shares are not received, amounting to ISK 20,000 million. The final due date for payment is set for 23 September 2020 and paid New Shares are expected to be delivered to investors at the latest on 9 October, but efforts will be made to deliver the New Shares sooner. Trading with the New Shares on the regulated market Nasdaq Iceland is expected to commence on or about 12 October 2020, but it could be sooner or later than that.

The Issuer reserves the right to cancel the Offering if minimum number of subscriptions for the New Shares are not received, amounting to 20,000 million. The Issuer will in such an event publish an announcement thereof. For avoidance of doubt a successful Offering can therefore be subscriptions of New Shares from investors amounting to ISK 14,000 million, as the Offering is underwritten in total amounting to ISK 6,000 million. Underwriters in the Offering are Íslandsbanki hf. and Landsbankinn hf. If the Offering is cancelled pursuant to the above, all subscriptions for New Shares in the Offering and allocations made on the basis thereof will consequently be invalidated.

Investing in the Shares, including the New Shares, involves a particularly high degree of risk. Prospective investors should read the entire Prospectus and consider chapters labelled "01 Risk factors ", pages 3-21 in the Share Register Document and pages 3-7 in the Securities Note, when considering an investment in the Company. The Company has been severely impacted by the current outbreak of the COVID-19 and investors should be aware that investment in shares issued by the Company carries substantial risks.

Íslandsbanki hf. and Landsbankinn have acted in the capacity of Co-Managers in relation to the New Shares being admitted to trading on the regulated market Nasdaq Iceland and preparing the Securities Note. Íslandsbanki hf. as the Listing Advisor has prepared the Prospectus in close co-operation with the Executive Committee and Board of Directors of the Company. The Prospectus is based on information provided by the Company, including audited consolidated financial statements. The Co- Managers will execute the Offering all in line with the Board of Directors resolution. The Co-Managers and Kvika banki hf. have jointly acted as advisors to the Company in the process of strengthening the long-term capital structure of the Company. Neither the Company as the Issuer nor the Co-Managers have made or should have been seen as making any promise of positive future operational results or an acceptable return on investment.

The issue of New Shares upon subscription in the Offering, to investors resident in, or who are citizens of countries other than Iceland, may be affected by the laws of the relevant jurisdiction. Prospective investors should consult their professional advisers as to whether they require any governmental or other consent or need to observe any other formalities to enable them to subscribe to the New Shares in the Offering. Neither the Issuer nor the Co-Managers, nor any of their respective representatives, are making any representation to any recipient, offeree, subscriber to the New Shares regarding the legality of an investment in the New Shares by such recipient, offeree, subscriber or purchaser under the laws applicable to such recipient, offeree, subscriber or purchaser. The Prospectus does not constitute or form part of an offer or solicitation to purchase or subscribe to the New Shares in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction where such distribution would require any additional prospectus, registration or measures other than those required under Icelandic law and regulations or where they would conflict with regulations in such jurisdiction. For more information regarding restrictions in relation to the Offering, see Chapter 5.11 Selling Restrictions in the Securities Note.

The Financial Supervisory Authority of the Central Bank of Iceland, (the "**FSA**") has scrutinised and approved the Prospectus on 28 August 2020. FSA is a competent authority under the Regulation (EU) 2017/1129 of the European Parliament and of the Council. The approval and registration of the FSA does not imply that the FSA has controlled the accuracy or completeness of the included information and gives no guarantee to that effect. Furthermore, such approval of the FSA shall not be considered as an endorsement to the Issuer that is the subject of the Prospectus. The FSA only approves the Prospectus as meeting the standard of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Investors shall make their own assessment as to the suitability of investing in securities. This Prospectus is available at the FSA website (www.fme.is) and the Issuer's website (www.icelandairgroup.is/).

This Prospectus, the subscription system and the terms and conditions of the Offering shall be governed by and construed in accordance with Icelandic law. Any dispute arising out of, or in connection with, this Prospectus, the Subscription system or the Offering shall be subject to the exclusive jurisdiction of the courts of Iceland, with the District Court of Reykjavík (Ice. Héraðsdómur Reykjavíkur).

Summary

8 September 2020

This summary is made in accordance with Article 7 of Regulation (EU) 2017/1129 of the European Parliament and of the Council (the "Prospectus Regulation") and Article 2 of Commission Delegated Regulation (EU) 2019/979 supplementing the Prospectus Regulation. This summary is comprised of four parts a) Introduction and warnings b) Key information about the Company c) Key information about the securities and d) Key information about the offering.

A. Introduction and warnings

This Summary should be read as an introduction to the Prospectus of Icelandair Group hf. ("Icelandair Group", the "Company" or the "Issuer") which is formed by this Summary, a Securities Note document and Share Registration document dated 8 September 2020 (the "Prospectus"). This Summary should be read as an introduction to the Prospectus. Any decision to invest in the securities should be based on a consideration of the Prospectus as a whole by the investor. An investment in the Company's securities involves inherent risk and an investor investing in the securities could lose all or part of its investment.

Íslandsbanki Corporate Finance and Landsbankinn Corporate Finance (the "Co-Managers") were retained by the Company to oversee the process of issuing the new shares and their admittance to trading on Nasdaq Iceland's regulated market. Further the Co-Managers prepared the Securities Note. Íslandsbanki as the Listing Advisor prepared the Prospectus in close cooperation with the Company. The Co-Managers accept fee for its service to the Company. The Co-Managers and Kvika banki have jointly acted as advisors to the Company in the process of strengthening the long-term capital structure of the Company. Investors are advised to acquaint themselves on the potential conflicts the Co-Managers and Kvika banki have regarding Icelandair Group.

Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under national law, must bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability is only attached to those persons who have tabled the summary including any translation thereof, but only where the summary is misleading, inaccurate or inconsistent, when read together with the other parts of the Prospectus, or where it does not provide, when read together with the other parts of the Prospectus, key information in order to help investors when considering whether to invest in such securities.

The Issuer declares that the Prospectus, of which this summary is a part of, was compiled in connection with the admission of new shares in Icelandair Group to trading on the regulated market of Nasdaq Iceland hf. The use of the description is not permitted for any other purpose.

Issuer	Icelandair Group hf., id no. 631205-1780
Issuer's address	Reykjavíkurflugvöllur, 101 Reykjavík, Ísland
ISIN	IS0000013464
Issuer's legal entity identifier (LEI)	549300UMI5MBLZSXGL15
Website	www.icelandairgroup.is/investors/
Phone number	+354 50 50 300
The competent authority approving the Prospectus	Fjármálaeftirlit Seðlabanka Íslands, kt. 560269-4129, Kalkofnsvegi 1, 101 Reykjavík email: lysingar@sedlabanki.is
Date of approval of this Prospectus	8 September 2020

B. Key information about the Company

Who is the issuer of the securities?

The Issuer's legal and commercial name is Icelandair Group hf. The Company is a public limited Company and operates in accordance to Act No. 2/1995 on public limited companies and is registered pursuant to Icelandic law. Icelandair Group is an Icelandic airline Company whose main purpose is the operation of an international route network through a hub-and spoke model based in its home market, Iceland. The airline aspect of the Company's operations includes both scheduled and charter services for passengers and freight.

Icelandair Group is the parent Company of several subsidiaries, hereinafter collectively referred to as the "Group". The largest part of the issuer's operations is the operations of Icelandair ehf. ("Icelandair" or the "Airline"), which corresponded to 77% of the Group's revenue in 2019. In addition, Icelandair Group is the parent Company to Loftleiðir-Icelandic ehf., FERIA ehf. (VITA) and Iceland Travel ehf. Icelandair's vision is to utilize Iceland's potential as a year - round destination, strengthen the country's position as a focal point in the international route network and maintain an emphasis on flexibility and experience. The Company made a strategic decision to divest its non-aviation businesses resulting in the sale of 75% equity share in Icelandair Hotels (Flugleiðahótel hf.) in April 2020 to Berjaya Property Ireland. The Company is obliged to retain a 25% share in Icelandair Hotels for a minimum of 3 years.

The Company's 10 largest shareholders are shown as at close of business on 7 September 2020. To the best of the Issuer's knowledge, the below listed are the rightful owners of the Company at the respective date.

#	Owner	Total Capital	%
1	Lífeyrissjóður verslunarmanna	642,361,239	11.8%
2	Par Investment Partners L.P. Boston	570,259,020	10.5%
3	Gildi - lífeyrissjóður	393,761,301	7.2%
4	Birta lífeyrissjóður	384,553,804	7.1%
5	Lífeyrissj.starfsm.rík. A-deild	339,161,000	6.2%
6.	Stefnir - ÍS 15	293,566,144	5.4%
7.	Stefnir - ÍS 5	280,920,532	5.2%
8.	Stapi lífeyrissjóður	154,480,294	2.8%
9.	Frjálsi lífeyrissjóðurinn	109,514,500	2.0%
10.	Landsbréf – Úrvalsbréf	108,836,367	2.0%

In total, 7 shareholders hold more than 5% equity share of the Company. The Company is not aware that it is, whether directly or indirectly, under the control or influence of a party or parties other than those listed above. The Company is further not aware that there is any arrangement that could later lead to changes under the control of the issuer. It shall be noted that the Issuer's securities are admitted to trading on the regulated securities market of Nasdaq Iceland and therefor can its ownership change quickly and without notice. The following individuals appoint the Company's executive board at the date of the publication of the Prospectus.

Name	Position
Bogi Nils Bogason	President & CEO Icelandair Group
Eva Sóley Guðbjörnsdóttir	Chief Financial Officer
Árni Hermannsson	Managing Director of Aircraft Leasing and Consulting
Birna Ósk Einarsdóttir	Chief Commercial Officer
Elísabet Helgadóttir	Chief Human Resources Officer
Gunnar Már Sigurfinnsson	Managing Director Air Freight and Logistics
Jens Þórðarson	Chief Operating Officer
Tómas Ingason	Chief Information Officer

The auditors of Icelandair Group during for the historical financial information for year 2019 in the Prospectus were KPMG ehf., Id. 590975-0449, Borgartún 27, 105 Reykjavík, and on their behalf Auður Þórisdóttir, Certified Public Accountant and Hjördís Ýr Ólafsdóttir, Certified Public Accountant. Both are members of the Association of Certified Public Accountants.

Auditors have signed the above mentioned historical financial information presented in the Prospectus without qualification. The interim financial statements for year 2020 are neither audited nor reviewed.

Key financial information regarding the Issuer

Income statement *Amounts are in USD thousands*	2020 01.01.-30.06.	2019 Restated[1] 01.01.-30.06.	2019	2018	2017
Revenue	269,788	651,369	1,504,495	1,510,518	1,417,987
EBITDA	(86,128)	(1,645)	137,976	76,479	170,076
Total profit (loss)	(331,046)	(89,380)	(57,779)	(55,570)	37,538
Profit (loss) per share	(6.12)	(1.77)	(1.06)	(1.16)	0.75

Balance sheet *Amounts are in USD thousands*	2020 30.06.2020	2019 30.06.2019	2019 31.12.2019	2018 31.12.2018	2017 31.12.2017
Total assets	1,090,737	1,716,992	1,676,587	1,464,122	1,423,842
Total equity	118,397	430,863	482,478	471,379	596,545
Interest bearing debt	262,597	230,505	321,286	415,801	289,541

Cash Flow *Amounts are in USD thousands*	2020 01.01.-30.06.	2019 01.01.-30.06.	2019	2018	2017
Cash flow (to) from operating activities	(19,409)	121,454	119,878	61,553	205,603
Cash flow from (used in) investing activities	10,512	(91,398)	(138,657)	(129,933)	(228,419)
Cash flows used in financing activities	(69,423)	(153,370)	(44,940)	149,336	14,554
Change in cash and cash equivalents	**(78,320)**	**(123,314)**	**(63,719)**	**80,956**	**(8,262)**
Effect of exchange rate fluctuations on cash held	(3,128)	(1,195)	(668)	(2,687)	2,564
Cash and cash equivalents at beginning of the period	235,073	299,460	299,460	221,191	226,889
Cash and cash equivalents at end of period	**153,625**	**174,951**	**235,073**	**299,460**	**221,191**

The Company suspended its 2020 fiscal guidance on 1 March 2020 given the increased uncertainty surrounding the Company's financial outcome for the year. COVID-19 has had a huge negative impact on the Company's revenue stream. The spread of the virus and mitigations measures against it have significantly reduced the Company's ability to maintain its operations. The Company has undertaken comprehensive actions to respond to the situation facing the Company due to the spread of COVID-19. Organizational changes have been made within divisions and departments of the Company. On top of the measures concerning employment levels the Company has taken decisive measures across all operations, including long-term union collective bargaining agreements, renegotiations with suppliers, lessors and its lenders. The Company has executed fully documented deferral agreements with all material creditors. The agreements are conditioned upon the successful completion of a share offering and the Company entering into an agreement regarding a government guaranteed credit facility amounting to USD 120 million. The deferral agreements include renegotiated financial covenants.

Key risks that are specific to the Issuer

General macroeconomic risks such as slowing economic growth, changes in interest rates, fluctuations in exchange rates, employment levels, strikes and inflation, whether globally or locally, can adversely affect the Company's operations.

[1] Travel and other employee expenses have been restated from salaries and salary related expenses to other operating expenses. Use of leased aircraft engines have been restated from depreciation to aviation expenses.

Operational Risk

- Icelandair Group, as other companies, is subject to general operational risk. Such risk can be related to various factors in the Company's operation and cause direct or indirect losses. An example of such risk might be environmental and security factors, information technology, management of employees, the Company's reputation, as well as a risk that the Company's strategy or/and plans do not materialise.
- The Company's operating assets are expensive and complicated, and the Company is therefore subject to risk related to break down or/and disruption in their operation. As is the case with any airline operator, the Company is exposed to significant potential loss through either crashes, malfunctions or other accidents. Costs may involve the repair or replacement of damaged or lost aircraft, consequent temporary or permanent loss of services and claims from passengers. Despite having insurance against this type of incident, the Company cannot guarantee that insurance coverage and policy pay-outs would in every case fully cover the resulting losses. Moreover, should an aircraft from the Company, or of the same type as used by the Company be involved in an accident, it might result in a damaged reputation or the Company's aircraft not being seen as reliable, which in turn could decrease demand for the Company's services. Materialisation of any of these risks may have a material adverse effect on the Company's business, financial condition, results of operations and future.
- The Company faces intensive competition in all fields of its activities. The level of competition amongst airlines is high, and pricing decisions are heavily dependent on competition from other airlines. In general, the airline industry is susceptible to fare discounting due to low marginal costs of adding passengers to otherwise empty seats. New market entrants, especially low-cost carriers, mergers, acquisitions, consolidations, new partnerships and increased transparency of pricing in the air travel market add to airline competition. Should competition increase even further in any of the Company's key transport markets, including the Icelandic market, it could affect the Company's profitability.

Industry risk

- Airline operators are highly sensitive to jet fuel prices and availability. Jet fuel can be subject to extreme price movements due to fluctuations in supply and demand as well as other external factors e.g. political unrest and terrorist attacks. In order to reduce fuel risk, the Company uses derivatives to fix fuel prices.
- Airline operations tend to be affected by high level of fixed costs due to the nature of provided services, i.e. the operation of expensive equipment, obligations due to leasing and investments and clauses in collective wage agreements that place certain restraints on flight crew scheduling. The high proportion of fixed costs makes unit revenues by Available Seat Kilometres ("ASK") important. Fluctuations in revenues per ASK can therefore detrimentally affect the Company's profitability particularly in the event of demand shocks, e.g. due to external disruptions that might be outside the scope of the Company's control. Cost awareness and flexibility, i.e. how quickly an airline can adapt to a changed external environment, are important factors in preserving profitability.
- The Company's aircraft fleet is very important for its operations as it is closely linked to the Company's transport capacity. Aircraft orders are based on plans for future forecasts, but lack of an aircraft fleet can have a significant effect on the Company's performance. The industry is therefore susceptible to damage that can be traced to plane crashes and aircraft breakdowns. The fatal plane crash of the Boeing 737 MAX 8 aircraft in March 2019 led to the EU along with several countries banning the model, as well as the MAX 9 model of the same aircraft, from flying in their airspace and subsequently by the Boeing Company itself. The full operational and financial impact of the suspension of the B737 MAX aircraft continues to be uncertain at this time and will not be fully known until the grounding is lifted.

- The airline and tourism industries are inherently labour-intensive industries. Most of the Company's employees are unionised; and represented by several unions, each of which has its own collective agreement on salaries and benefits with the Group's companies. Strikes can materially affect the Company's operations and financial results; a worst-case scenario being a complete halt in the operations of one or more of its subsidiaries for a prolonged period. Strikes in the aviation industry are particularly taxing for airlines due to proportionately high fixed costs.
- External effects such as terrorism, natural disasters and epidemics, which are out of the Company's control, can have a detrimental effect on the Company's profitability. Natural disasters such as floods, tornadoes or volcanic eruptions can adversely affect airlines' route network and, in the worst cases, can lead to long-term flight suspension. The spread of infectious diseases can further affect the Company. The COVID-19 pandemic has caused many countries to take extreme emergency measures such as closing down their countries and for residents to be subject to curfews or other restrictions on everyday life. The COVID-19 pandemic has significantly affected the demand for international travel.
- The airline industry is exposed to risk of holdbacks from credit card acquirers. Acquirers accept credit card payments from customers for the sale of flights and other services provided by the Company, and the acquirers subsequently transfer payments to the Company. The agreements allow, under certain circumstances, the acquirers to retain amounts that have been paid as part of the Company's prepaid income. The amount that may be withheld varies, but this can reduce and damage the Company's liquidity position.
- The Company operates in a sector where demand has traditionally been much higher during the summer than during other seasons. Lower demand for air travel, flight cancellations or other factors affecting aircraft utilisation would therefore have a proportionately greater impact on the Company during the summer than during other periods.
- Air transportation is subject to intensive regulation. Air operator's certificate for Icelandic carriers are granted by the Icelandic Transport Authority and have been issued to the relevant subsidiaries of the Company, authorising them to conduct their airline operations. There is no guarantee that the Company will be issued such certificates in the future. Changes in laws, regulations, rules or rulings of the government can have a negative effect on the Company's operations and profitability and the value of the Company's shares. Examples of this could be stricter rules to protect the environment, such as limits of carbon dioxide emissions. In addition to changes that may occur in the tax environment, certain fees and costs are imposed on air operations and tourism, which can have a direct effect on ticket prices and demand.

C. Key information on the securities

What are the main features of the securities?

The securities' type, class and ISIN	The securities that are to be admitted to trading are new shares in Icelandair Group. The Company's shares are all in one class and equal in all respects according to the Company's Articles of Association. The shares in Icelandair Group are issued in accordance with Act No. 2/1995 on public limited companies. The shares are electronically registered at the Nasdaq CSD Iceland in accordance with Act No. 7/2020 on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments and any subsequent rules based thereon. The shares are registered under the ticker ICEAIR and ISIN IS0000013464.
Currency of the securities issued	Icelandic Krona (ISK)
The par value per share	Icelandair Group's issued share capital amounts to ISK 5,437,660,653, divided into an equal number of shares. The nominal value of each Share is ISK 1.

The rights attached to the securities	All shares have equal rights and no special rights are attached to any of the shares. One vote is attached to each Share in the Company at shareholders' meetings. Shareholders' rights at any given time are subject to the Company's Articles of Association and applicable legislation.
Relative seniority of the securities in the Company's capital structure in the event of insolvency	Upon liquidation or bankruptcy of a public limited Company, shareholders are paid in proportion to their share capital holdings using the remainder of the public limited Company's assets after all other creditors have had their valid claims paid.
Restrictions on the free transferability of the securities	The shares are freely transferrable unless otherwise stipulated by law, including Act No. 7/2020 on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments and any subsequent rules based thereon.
Dividend policy	The Board of Directors of Icelandair Group has adopted a dividend policy whose objective is to pay 20-40% of each year's annual net profit as dividend to its shareholders. The final decision on any dividend proposal will be based on the financial position of the Company, operating capital requirements and market conditions. Dividend payments may at times also be impacted by the Company's liquidity needs, financial covenants and other agreements that might limit dividend payments to shareholders at any given time. All shareholders hold equal rights to dividend payments. Dividend shall be decided at the Annual General Meeting to be held before the end of April each year. The Company is bound by covenants concerning dividend payments that loan agreements and other agreements may contain at any given time. Dividend payments will not be paid during the time the government guaranteed credit facility is in place, neither during the drawdown period, or if drawn on, while it is being amortized. A dividend was paid for fiscal years 2015, 2016 and 2017. No dividend was paid for the fiscal years 2018 and 2019.

Where will the securities be traded?

The shares are, and the new shares will be, admitted to trading on the regulated market of Nasdaq Iceland hf. Following the confirmation of the Prospectus by the Financial Supervisory Authority of Iceland's Central Bank and the completion of the offering, the Board of Directors of Icelandair will request that the new shares in the Company to be admitted to trading on the regulated market of Nasdaq Iceland hf., which is a regulated securities market.

Is there a guarantee attached to the securities?

Not applicable. The securities are not subject to guarantee.

What are the key risks that are specific to the securities?

- Equities are, considered a riskier investment than some other financial instruments e.g. bonds. Share prices can fluctuate more than bond prices and their value can drop to zero. In the event of the Company's liquidation, shareholders are last in line of receivership. Investors further must consider that the structure and composition of a Company's shareholder base can be a risk factor. Investors should be aware that ownership of the Company can change quickly and without notice.
- No assurance can be given with respect to the market price of Icelandair Group's shares once listed. Volatility thereto could among other be related to general supply and demand for shares in general.
- The liquidity of the shares is subject to fluctuations in response to factors such as actual or anticipated variations in the Company's operating results, changes in estimates or recommendations by financial analysts, currency exchange rates, regulatory developments,

general market conditions and other factors. Despite such an effort there can be no guarantee issued that shareholders in Icelandair Group will be able to dispose of their holdings at the price, or in the volume, desired in the secondary market.

D. Key information about the offering

Under which conditions and timetable can I invest in this security?

A minimum of 20,000 million new shares in Icelandair Group will be offered for purchase. In the event of an oversubscription the Board of Directors are authorized to increase the offering by as much as ISK 3,000 million shares. The new shares will be sold in a public offering that is expected to start on 16 September 2020 and to end on 17 September 2020. The subscription period may not be shortened but may be extended as required by law inter alia in the event of the publication of a supplement to the Prospectus. The Issuer reserves the right to amend the subscription period at their sole discretion.

All shares in the offering will be sold at the same offer price, or ISK 1.0 per share. The results of the offering and allotment are expected to be published 18 September 2020. The final due date for payment is expected to be 23 September 2020. The new shares will only be delivered after payment is received, paid new shares will be delivered once the share capital increase has been duly registered with relevant authorities and issued through the Nasdaq CSD Iceland which will be at latest on 9 October 2020, taking into consideration regulatory deadlines. Every effort will be made to deliver the new shares sooner than that. It is expected that the new shares will be admitted to trading on the regulated market of Nasdaq Iceland hf. on 12 October 2020. Investors participating in the Offering have to meet certain eligibility conditions. Participation is open to legal entities with Icelandic identification number and financially and legally competent individuals according to Act No 71/1997 on legal competence. The offering is only marketed in Iceland. Employees of Íslandsbanki and Landsbankinn who intend to participate in the offering may be subject to stricter rules. In addition, the investors must have completed an appropriateness test in the Subscription system where they provide the Co-managers with information about their knowledge and experience in the investment field relevant to the Warrants.

Investors can choose from two order books in the offering, which differ in terms of subscription size. Order Book A will offer 17,000,000,000 new shares, no maximum subscription amount, but the minimum subscription must exceed ISK 20,000,000 (purchase price) for each subscriber. Order book B will offer 3,000,000,000 new shares, maximum subscription is ISK 20,000,000,000 (purchase price), with minimum subscription ISK 100,000 (purchase price). In addition, it shall be noted that warrants will be allocated to investors who are allocated new shares in the offering amounting to 25% of the nominal value of the total shares issued as a result of the offering, corresponding to up to ISK 5,750,000,000 in nominal terms. Based on final demand of the subscription, the Issuer has the right to amend, increase or decrease, the number of shares that are offered in Order Book A and Order Book B. Subscriptions shall be registered electronically on a special order form (subscription website) which can be reached via this website https://www.landsbankinn.is/utbod/icelandair. A link on the subscription website will be available through the Co-Managers websites, www.islandsbanki.is and www.landsbankinn.is and on the Company's website www.icelandairgroup.is. The Issuer will cancel the Offering if minimum number of subscriptions for the new shares are not received, amounting to ISK 20,000 million. The offering will result in an immediate dilution of approximately 78.6%-80.9% for existing shareholders who do not participate in the offering excluding the potential effects of exercised warrants. The final dilution will depend on the number of new shares issued following the offering and exercised warrants.

Íslandsbanki and Landsbankinn have agreed, subject to certain conditions, to collectively purchase, from the Company, new shares in the offering at the offering price for a total consideration of up to ISK 6,000 million and is divided in equal proportions between Íslandsbanki and Landsbankinn (i.e. 50%/50%). Hence the offering is underwritten in part.

Why is the prospectus being produced?

This prospectus is produced in connection with the listing of up to 23,000 million shares in Icelandair Group hf. The Issuer bears all cost associated with the issuance of the new shares and their admittance to trading. The net proceeds will be used to improve the liquidity, secure working capital and equity position of the Company as well as secure working capital for a period of expected low production.

Securities Note

8 September 2020

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01 RISK FACTORS

Investments in equities involve inherent risks and investors can assume the risk of losing their entire investment. The value of shares issued by Icelandair Group hf., (the “Shares”) can increase as well as decrease, therefore an investment in the Shares carries substantial risks.

Investors should study all information contained in Icelandair Group’s hf. (“Icelandair Group”, the “Company” or the “Issuer”) Prospectus, dated 8 September 2020, of which this Securities Note forms a part, to adequately assess the risks involved and the suitability of the Shares as an investment option for themselves. Investors are advised to properly evaluate their legal standing and any tax considerations involved with investments in the Shares and subscribing to New Shares in the Offering (as defined in this Securities Note) and seek suitable independent counsel. Warrants will be allocated to investors who are allocated New Shares in the Offering amounting to 25% of the nominal value of the total shares issued as a result of the Offering at no extra cost (the “Warrants”). Receiving the Warrants may involve receipt of taxable benefits. Investors are advised to see their own professional advise in relation to the holding of Warrants and its potential impact.

Investors are encouraged to acquaint themselves with the risks and uncertainties presented in Chapter 01 *Risk Factors* in this Securities Note and the Share Registration Document, both dated 8 September 2020. The Company considers these categories of risk factors material for the effective assessment of the market risk associated with investments in the Shares. If any of the following risks were to materialise, individually or together with other circumstances, they could have a material and adverse effect on the Company and/or its business, results of operations, cash flows, financial condition and/or prospects, which may cause a decline in the value and trading price of the Shares, resulting in the loss of all or part of an investment in the Shares. Investors shall note that trading of the Warrants may involve similar risks as investing in shares. Further details on risk factors involved with the Warrants will be discussed in a Securities Note for the Warrants, that is expected to be published on or before 15 October 2020. To the best of the Company’s knowledge no risk is attached to receiving the Warrants.

Additional risks and uncertainties that do not currently exist, that are presently not considered material, or of which the Company is unaware, may also impair the business and operations of the Company resulting in a change in the market price of the Shares.

The order in which the categories of risk factors are presented does not reflect the likelihood of their occurrence or the magnitude of their potential impact on the Company’s business, results of operations, cash flows, financial condition and/or prospects. The categories of risk factors mentioned herein could materialise individually or cumulatively. Any quantification of the significance of each individual category for the Company would be misguiding, as the categories of risks factors mentioned in the Securities Note may materialize to a greater or lesser degree.

The information in this chapter is presented as of the date of the Securities Note, unless otherwise noted, and is subject to change, completion or amendment without notice.

This Securities Note or other documents that form part of the Prospectus dated 8 September 2020 shall not be distributed or disseminated in any way to countries where publication of the Prospectus requires further registration or action other than those required by Icelandic law and regulations.

The distribution of this Securites Note may be restricted by law in certain jurisdictions. Therefore, Icelandair Group requires all recipients to the Prospectus to inform themselves about and observe such restrictions. The Company, Landsbanki's Corporate Finance division and Íslandsbanki's Corporate Finance division are not liable for any third-party distribution of this Securities Note or other documents that form part of the Prospectus in any jurisdiction.

1.1 Risk Inherent to Equity Share Investments

Equities are generally considered a riskier investment than some other financial instruments e.g. bonds. Share prices can fluctuate more than bond prices and their value can drop to zero and investors can lose their entire investment. In the event of the Company's liquidation, shareholders are last in line of receivership, collecting only that which is left when all other claims have been settled. Return on equity securities are dependent on dividend payments and the change in share price, i.e. the difference between the purchase price and the selling price of each share. Theoretically, the risk involved can be mitigated by investing in a portfolio of diverse investments and limiting the investments to companies that the investor either knows well or can study in detail. Investors can further severely reduce risk by limiting or avoiding the use of borrowings to fund share purchases. Nevertheless, the inherent risks of the equity markets cannot be fully avoided when investing in equity securities.

Investors should bear in mind that even though equities can provide a good return in general, there is always a risk that an investment in the shares of individual companies will decline in value. It is therefore recommended that investors pay close attention to diversifying their risk and they are furthermore advised to seek assistance from experts, such as licensed financial institutions, to assist them in their assessment of the Shares as an investment option.

Investments in equities bear with them diverse risk. Examples of these risks are liquidity risk, counterparty- and market risk. Liquidity risk is the risk that investors are not able to dispose of certain shares when they so desire or cannot dispose of them at a price deemed acceptable. This risk can be measured by the difference in the ask and bid rates of the relevant shares. Counterparty risk is the risk that a counterparty in any given transaction does not hold up his or her end of the contract upon settlement. Market risk is the risk of fluctuations in the market price of shares. Multiple events can lead to market price fluctuations, resulting in either an increase or decrease in share price. Many of such events are outside the control of a company's management. Further details on market and liquidity risk is found in following chapters of this Securities Note.

Companies are dependent on the legal framework imposed by local authorities at any given time. Once their shares are admitted to trading on a regulated market companies are further subject to the laws and regulations pertaining to financial markets. Extensive or far reaching changes to that legal framework can negatively affect financial markets or cause turbulence resulting in fluctuations in the price of listed securities. Leverage is the use of debt (borrowed capital) to invest in an equity share investment. The return from using leverage to invest in equity comes from the difference between the return on equity and the cost of the associated interest on the borrowed capital. Leverage amplifies both investors return and loss, therefore exposing investor to higher risk of investing in equity.

1.2 Market Risk

Financial markets have from time to time experienced price and volume fluctuations, which have been unrelated to the operating performance or prospects of individual companies. Consequently, the market price and liquidity of the New Shares may be materially adversely affected by general declines in the market or by declines in the market for similar securities. The market price of the Shares offered may also be affected by market expectations for the Company´s financial performance and changes in the estimates of the Company´s results of operations by securities, analysts, regardless of the Company´s actual results of operations and financial conditions. These external factors are outside the control of the Executive Committee.

The offer price of the New Shares can be higher or lower than the market price as determined by investors in the secondary market. There is a risk that investors that purchase the New Shares cannot liquidate their holdings at the Offering Price, or a price higher than the purchase price, in the secondary market. There is also the risk that they cannot liquidate their holdings at all, despite being willing to do so at a discounted price.

The Company's market environment is still to some extent subject to capital controls,[1] if economic circumstances were to change there is no assurance that some elements of the capital controls will not be re-imposed. The rules on special reserve requirement for new foreign currency inflow, have been amended several times and the current rules are Rules No. 223/2019. The current special reserve ratio is 0%.

1.3 Liquidity Risk

The liquidity of the New Shares is subject to fluctuations in response to factors such as actual or anticipated variations in the Company's operating results, changes in estimates or recommendations by financial analysts, currency exchange rates, regulatory developments, general market conditions and other factors. An example of this would be if a large shareholder needed, or decided to, liquidate his or her entire holdings at once which would then significantly increase the supply of Shares which in turn would likely put downward pressure on their price.

Active market making in the Shares can act to mitigate liquidity risk. Despite such an effort there can be no guarantee issued that shareholders in Icelandair Group will be able to dispose of their holdings at the price, or in the volume, desired in the secondary market. Liquidity risk is partially determined by the number of shareholders in the Company. The size of the Offering, relative to the Company's current market capitalization at the date of this Securities Note may affect the liquidity of the Company's shares. Illiquidity may have a severely adverse effect on the market value of the Shares.

The Company could enter into a market making agreement with a third party with an obligation to submit bid and ask offers in Shares on a daily basis. Such an agreement would always be subject to a maximum amount relatively small in relation to the size of the Offering. For information on market making agreements in place regarding the Shares please refer to Chapter 4.2 *Market Making* in this Securities Note.

[1] On 28 November 2008, the Icelandic Parliament passed Act No. 134/2008 granting the Central Bank of Iceland powers to intervene in the currency market with the view of stabilising the foreign exchange rate of the ISK. For this purpose, the Central Bank of Iceland issued Rules No. 1082/2008 on Foreign Exchange imposing stringent capital controls on cross-border movement of capital and related foreign exchange transactions.

1.4 Ownership and Control

Investors must take into account that the structure and composition of a Company's shareholder base can be a risk factor. Large shareholders, by deciding to jointly apply their voting rights, may decide the vote on any given issue at shareholders' meetings. Such large shareholders further have the power to veto change of control or resolve to take actions that might materially adversely affect the share price of the Company. A large concentration of ownership by lead investors further decreases the free float of shares in the secondary market, thereby increasing liquidity risk.

Investors should be aware that ownership of the Company can change quickly and without notice. To the best of the Company's knowledge there exist no shareholders' agreements regarding Shares in Icelandair Group with the purpose of exerting joint influence on the Company. Nor is the Company aware of any agreements that may result in change of control of the Company.

Holders of shares traded on the regulated market of Nasdaq Iceland are subject to the provisions of Act No. 108/2007 on Securities Transactions (the "Securities Transactions Act"), including but not limited to Chapter IX. on changes in Major holdings and Chapter X. on takeover bids. It is assumed that no shareholder will hold more than 25% of the total share capital in Icelandair Group at the time of the New Shares being admitted to trading on the regulated market of Nasdaq Iceland.

At close of business on 7 September 2020 there were 4,458 shareholders in Icelandair Group. At the time, the 20 largest shareholders, whereof 10 were Icelandic pension funds, directly held a total of 42.8% of tradeable Shares in the Company.

Investors are advised to acquaint themselves with information on the Company, as well as the shareholders, contained in Chapter 05 *Share Capital and Shareholders* in the Share Registration Document, dated 8 September 2020.

1.5 Dilution

Generally, the Company's shareholders face dilution in the event of a share capital increase unless they subscribe to New Shares in proportion to their existing holdings. Additionally, Shareholders may be faced with increased risk to their investment alongside dilution of their existing shares depending on how the increased capital will be put to use. As of the date of this Securities Note, the nominal value of the share capital of Icelandair Group is ISK 5,437,660,653 divided into an equal number of Shares with a nominal value of one ISK each. The Offering will result in an immediate dilution of approximately 78.6%-80.9% for existing Shareholders who do not participate in the Offering excluding the potential effects of exercised Warrants. The final dilution will depend on the number of New Shares issued following the Offering and the number of Warrants exercised.

Item 1: A comparison of participation in share capital and voting rights and dilution of shareholders who do not participate in the offering, excluding potential effects of exercised Warrants

Issued new shares	Dilution
23,000,000,000	80.9%
22,000,000,000	80.2%
21,000,000,000	79.4%

20,000,000,000	78.6%

Should all the Warrants be exercised, the share capital will increase by 5,000,000,000 to up to 5,750,000,000 new shares (the "Warrant Shares"). The Warrant Shares will represent 16.4%-16.8% of the Company's total issued capital, post dilution. The exercise of all outstanding or part of the outstanding Warrants will result in an immediate dilution for existing Shareholders who do not participate in the Offering and will therefore not be granted Warrants as well as those investors that choose not to exercise their Warrants. Further details on the Warrants can be found in Chapter 5.12 *The Warrants* of this Securities Note.

Shareholders may at a future date vote to further increase share capital that, unless subscribed to pro rata to holdings, may further dilute the holdings of shareholders. Share capital in the Company cannot be increased unless agreed by two thirds of votes cast at a shareholders' meeting as well as by the votes of holders of at least two thirds of the Shares represented at the respective meeting. According to the Articles of Association shareholders shall have pre-emptive rights to purchase New Shares issued by the Company in proportion to their registered holdings. Exemptions from this are authorised, cf. Article 34 (3) of Act No. 2/1995 respecting Public Limited Companies (the "Public Companies Act"). As further detailed in Chapter 05 *Terms and Conditions of The Offering,* in this Securities Note, current shareholders have waived their pre-emptive rights in the Offering. Therefore, the holdings of current shareholders might get diluted.

1.6 Trading in The Secondary Market

An active and efficient secondary market with sufficient volume of trading in the Shares is conducive to investors profiting from their investment. The Company cannot guarantee that such a market for the Shares will always exist. There might arise a situation, for a shorter or longer term, where investors will not be able to sell their Shares easily or only sell them at a discount from their purchase price or at a lower price than comparable securities from other issuers, regardless of Company's actual operating performance.

The Company has been severely impacted by the current outbreak of the COVID-19 which has also led to a significant reduction in the trading price of the Shares. The fluctuations in the trading price, the extraordinary market conditions and the extraordinary financial situation of the Company result in lower visibility on the future and could have an effect on how the Shares are priced in the market, which has made it challenging to determine the Offering Price and no assurance can be given that the Offering Price will reflect the future trading value of the Company. As a result, investors may not be able to re-sell their Offer Shares at or above the Offering Price, or at all.

1.7 Lock-up Agreements

Not applicable. There are no selling Shareholder in the Offering and no lock-up on any Shareholders or members of the Executive Committee of the Company or Board of Directors who are holders of Shares.

02 NOTICE TO INVESTORS

This Securities Note forms a part of Icelandair Group's prospectus, dated 8 September 2020, (the "Prospectus") which has been prepared in connection with an offering of a minimum of 20,000,000,000 new Shares, with an authorization to increase by as much as 3,000,000,000 shares in case of oversubscription for a total size of up to 23,000,000,000 (the "New Shares") in Icelandair Group and an application for their admittance to trading on the regulated market of Nasdaq Iceland, as described herein. In addition, warrants will be allocated to investors who are allocated New Shares in the Offering (the "Warrants"), amounting to 25% of the nominal value of the total shares issued as a result of the share offering (the "Offering").

The Prospectus shall be valid for 12 months post-publication. For a period of ten years from the date of issue of this Securities Note, this Prospectus shall be available for electronic viewing on the Company's corporate website: www.icelandairgroup.is/investors/.

For a detailed account of the conditions of the Offering, which is considered a public offering to Icelandic investors,[2] the Company refers to Chapter 05 *Terms and Conditions of The Offering,* in this Securities Note. For the definition of terms used throughout this Securities Note, see Chapter 2.1 *Definitions and References* in this Securities Note.

The Prospectus has been prepared to provide information about Icelandair Group, its business operations and financial standing and has been drawn up as part of a simplified prospectus in accordance with Article 14 of Regulation (EU) 2017/1129 of the European Parliament and of the Council (the "Prospectus Regulation"). The level of disclosure complies with Annexes 3 (Registration document for secondary issuances of equity securities) and 12 (Securities note for secondary issuances of equity securities or of units issued by collective investment undertakings of the closed-end type) to EC Commission Regulation (EU) 2019/980 of 14 March 2019 supplementing the Prospectus Regulation. The Prospectus Regulation has been implemented into Icelandic law through the Act on Prospectus for Public Offering or Admission to Trading on a Regulated Market No. 14/2020. The Prospectus further complies with Nasdaq Iceland's Rules for Issuers of Financial Instruments, dated 1 May 2020 ("Rules of Exchange").

The Prospectus is published electronically at the Company's website, https://www.icelandairgroup.is/investors/reports-and-presentations/prospectus/ and consists of three separate documents; a Summary, this Securities Note and a Share Registration Document, all dated 8 September 2020. Printed copies can be ordered, free of charge, through iris@icelandairgroup.is for up to twelve months post-publication. The Prospectus has been prepared solely in the English language; however, an Icelandic translation of the Summary has been prepared and made available to investors. The Icelandic language version of the Summary is an unofficial translation of the English original and in case of any discrepancies, the English version shall prevail.

The Financial Supervisory Authority of the Central Bank of Iceland, (the "FSA") has scrutinised and approved the Prospectus 8 September 2020. FSA is a competent authority under the Prospectus Regulation. The approval and registration of the FSA does not imply that the FSA has controlled the accuracy or completeness of the included information and gives no guarantee to that effect. Furthermore, such approval of the FSA shall not be considered as an endorsement to the Issuer that is the subject of the Prospectus. The FSA only approves the

[2] Public Offering in accordance with the Act on Prospectus for Public Offering or Admission to Trading on a Regulated Market No. 14/2020.

Prospectus as meeting the standard of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Investors shall make their own assessment as to the suitability of investing in securities.

The distribution of the Prospectus and the sale of the Shares in certain jurisdictions may be restricted by law. The Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase any of the Shares in any jurisdiction other than Iceland, in which that would be considered unlawful. Accordingly, neither the Prospectus nor any advertisement or sales material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. The Company requires persons in possession of the Prospectus to inform themselves of and observe any such restrictions and behave accordingly. This Prospectus, the Subscription System and the terms and conditions of the Offering shall be governed by and construed in accordance with Icelandic law. Any dispute arising out of, or in connection with, this Prospectus, the Subscription System or the Offering shall be subject to the exclusive jurisdiction of the courts of Iceland, with the District Court of Reykjavík (Ice. Héraðsdómur Reykjavíkur) as the venue. Unless otherwise stated, references to any laws, acts or regulations are references to acts passed by the Icelandic parliament and regulations issued by Icelandic governmental agencies unless otherwise clear from the context.

All sections of the Prospectus should be read in conjunction and as a whole. Special attention is drawn to the importance of investors reading and fully understanding the associated risks of investing in the Shares by familiarising themselves with the contents of Chapter 01 *Risk Factors* in both this Securities Note and the referenced Share Registration Document. In making an investment decision, investors must rely on their own examination and analysis of Icelandair Group including the merits and risks involved. Investors are reminded that shares are risky investments that are based on expectations, not promises. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a subscription to the New Shares and the Offering. Neither the Company as the Issuer nor Íslandsbanki hf. ("Íslandsbanki") and Landsbankinn ("Landsbankinn") as Co-Managers have made or should have been seen as making any promise of positive future operational results or an acceptable return on investment. The FSA has ruled that the Warrants are to be classified as complex financial instruments as set out in the Icelandic Securities Transactions Act No. 108/2007 and MiFID.[3] Therefore the Co-Managers require all investors to provide information on their knowledge and experience of securities investments relevant to the Warrants. This is to determine whether the Warrants are appropriate for the respective investor, ascertaining if the investor has the necessary experience and knowledge needed to understand the risks involved in relation to receiving and trading the Warrants. The assessment is conducted via an investor questionnaire that forms a part of the subscription process in the Subscription System. The questionnaire must be completed by both individuals and legal entities. For detailed information on the Warrants see Chapter 5.12 *The Warrants* in this Securities Note dated 8 September 2020.

Information in the Prospectus is based on circumstances and facts on the date it is signed, unless otherwise noticed. The Issuer has furnished the information in the Prospectus to provide a presentation of Icelandair Group and to inform prospective investors about the Company and the Shares. Unless otherwise explicitly stated, the source of information included in the

[3] MiFID stands for Markets in Financial Instruments Directive No. 2014/65/EC.

Prospectus is the Issuer. If significant new information, material mistakes or inaccuracy relating to information in the Prospectus, which could affect the assessment of the Shares, is discovered between the time the Prospectus is approved, as per Article 5 of the Act on Prospectus for Public Offering or Admission to Trading on a Regulated Market No. 14/2020, and the time when the Shares are admitted to trading, a supplement to the Prospectus shall be prepared to contain the changes and/or new information in question in accordance with Article 23 of the Prospectus Regulation. The supplement shall be approved and published in the same manner as the original prospectus, within a maximum of five working days. The Summary and any translation thereof shall also be supplemented as relevant. Investors who have agreed to purchase or subscribe to the Shares prior to the supplement being published shall have the right to withdraw their subscriptions within two working days following the publication of the supplement in accordance with Article 23 of the Prospectus Regulation.

2.1 Definitions and References

In this Securities Note, the below shall be construed to have the following meaning unless otherwise explicitly stated or clear from context.

AGM	is a reference to Icelandair Group's Annual General Meeting
Articles of Association	is a reference to the Company's Articles of Association, dated 26 May 2020
Board of Directors	is a reference to the Board of Directors of the Company
Co-Managers, the	is a reference to Íslandsbanki hf., ID No. 491008-0160, Hagasmári 3, 201 Kópavogur, Iceland and Landsbankinn hf., ID No. 471008-0280, Austurstræti 11, 101 Reykjavík, Iceland
EEA	is a reference to the European Economic Area, whereby Iceland, Norway and Liechtenstein gain access to the EU's single market on the basis that they adopt most EU legislation concerning the single market
EU	is a reference to the European Union
EUR	is a reference to the Euro, the legal tender of the EU
Executive Committee, the	is a reference to the individuals detailed in Chapter 6.2 *Executive Committee* in the Share Registration Document dated 8 September 2020
IFRS	is a reference to International Financial Reporting Standards as approved by the EU according to Directive 1606/2002
Icelandair Group, the Company and the Issuer	is a reference to Icelandair Group hf. ID No. 631205-1780, Reykjavíkurflugvöllur, 101 Reykjavík, Iceland
Information Memorandum, the	is reference to the Company's Information Memorandum, first published 18 August 2020, amended and republished 4 September 2020
ISK	is a reference to Icelandic Krona, the legal tender of Iceland
Íslandsbanki hf., the Listing Advisor, the Co-Managerand an Underwriter	is a reference to Íslandsbanki hf., ID No. 491008-0160, Hagasmári 3, 201 Kópavogur, Iceland
Kvika banki hf.	is a reference to Kvika banki hf., ID No. 540502-2930, Katrínartúni 2, 105 Reykjavík, Iceland
KPMG	is a reference to auditing firm KPMG ehf., ID No. 590975-0449, Borgartún 27, 105 Reykjavík, Iceland
Landbankinn hf., the Co-Manager and an Underwriter	is a reference to Landsbankinn hf., ID No. 471008-0280, Austurstræti 11, 101 Reykjavík, Iceland

Listing Advisor, the	is a reference to Íslandsbanki hf., ID No. 491008-0160, Hagasmári 3, 201 Kópavogur, Iceland
Nasdaq Iceland and the Nasdaq Iceland Stock Exchange	is a reference to Kauphöll Íslands (Nasdaq Iceland) ID No. 681298-2829, Laugavegur 182, 105 Reykjavik, Iceland which operates Iceland's only regulated market
New Shares	is a reference to the maximum of 23,000,000,000 shares in Icelandair Group being offered in the Offering
Prospectus	is a reference to the Company's Prospectus, dated 8 September 2020, formed by the Securities Note, the Share Registration Document and the Summary
Securities Note, the	is a reference to this Securities Note, dated 8 September 2020
Shares, the	is a reference to shares issued by Icelandair Group hf.
Share Registration Document, the	is a reference to the Company's Share Registration Document dated 8 September 2020
Subscription System, the	is a reference to the online system where investors shall place their subscriptions in the Offering and undergo an appropriateness test
USD	is a reference to United States dollars, the legal tender of the United States of America
Warrants, the	is a reference to the warrants (*icel. áskriftarréttindi)* issued by the Company in relation to the Offering

2.2 The Company's Statement

We, the undersigned, the Chairman of the Board of Directors and the President and Chief Executive Officer of Icelandair Group hf., ID No. 631205-1780, registered office at Reykjavíkurflugvöllur, 101 Reykjavík, Iceland, hereby declare for and on behalf of the Company that has taken all reasonable care to ensure that such is the case, the information contained in this Securities Note dated 8 September 2020 is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík 8 September 2020

For and on behalf of the Icelandair Group

Úlfar Steindórsson

Chairman of the Board of Directors

and

Bogi Nils Bogason

President and Chief Executive Officer

2.3 The Listing Advisor, The Co-Managers and The Advisors

Íslandsbanki and Landsbankinn have acted in the capacity of Co-Managers in relation to the New Shares being admitted to trading on the regulated market of Nasdaq Iceland and preparing this Securities Note. Íslandsbanki as the Listing Advisor has prepared the Prospectus in close co-operation with the Executive Committee and Board of Directors. The Prospectus is based on information provided by the Company, including audited consolidated financial statements. Landsbankinn will handle payments from investors and distribution of the New Shares.

Taking into consideration that the Warrants are, as per the FSA's ruling, complex financial instruments the Co-Managers require all investors to provide information on their knowledge and experience of securities investments relevant to the Warrants.This is to determine whether the Warrants are appropriate for the respective investor, determining if the investor has the necessary experience and knowledge needed to understand the risks involved in relation to receiving and trading the Warrants. The assessment is conducted via an investor questionnaire that forms a part of the subscription process in the Subscription System. The questionnaire must be completed by both individuals and legal entities.

The Co-Managers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is assumed by Co-Managers as to the accuracy or completeness of the information contained in this document or any other information provided by the Company in connection with the admittance of the New Shares to trading and the Offering.

The Co-Managers further have handled the execution of the Offering and the allocation of the New Shares based on the Offering results. The Co-Managers will execute the Offering all in line with the Board of Directors resolution. The Co-Managers will perform an assessment of appropriateness for investors, which will be conducted in the Subscription System.

The Co-Managers and Kvika banki have jointly acted as advisors to the Company in the Offering, assisted in preparing the Information Memorandum and advised in the process of strengthening the long-term capital structure of the Company.

Íslandsbanki hf. Corporate Finance

ID Number	491008-0160
LEI Number	549300PZMFIQR79Q0T97
Registered offices	Hagasmára 3, 201 Kópavogur
Phone	+354 440 4000
Web address	www.islandsbanki.is

Landsbankinn hf. Corporate Finance

ID Number	471008-0280
LEI Number	549300TLZPT6JELDWM92
Registered offices	Austurstræti 11, 101 Reykjavík
Phone	+354 410 4000
Web address	http://www.landsbankinn.is

Kvika Banki hf.

ID Number	540502-2930
LEI Number	254900WR3I1Z9NPC7D84
Registered offices	Katrínartúni 2, 105 Reykjavík
Phone	+354 540 3200
Web address	http://www.kvika.is

2.4 Potential Conflict of Interest

Investors are advised of the following interests Íslandsbanki, Landsbankinn and Kvika Banki have regarding Icelandair Group:

Íslandsbanki

Íslandsbanki's Corporate Finance division was retained by the Company to oversee the Offering, the process of issuing the New Shares and their admittance to trading on Nasdaq

Iceland's regulated market. Íslandsbanki accepts a fee for their services to the Company, which inter alia include the compilation of the Prospectus. Íslandsbanki's Corporate Banking division is a lender to Icelandair Group and provides general banking services to the Company. Íslandsbanki's FX Sales division provides foreign exchange trading services to Icelandair Group. At close of business on 7 September 2020 Íslandsbanki holds a total of 4,000 Shares in the Issuer. Íslandsbanki acts as a market maker for the Company as further disclosed in Chapter 4.2 *Market Making* in this Securities Note. Moreover, Íslandsbanki has entered into an Underwriting Agreement in relation to the Offering as further disclosed in Chapter 5.13 *The Underwriting* in this Securities Note.

In accordance with Article 8 of the Securities Transactions Act, Íslandsbanki has in place provisions for the treatment of potential conflicts of interest. Investors are advised to acquaint themselves with these provision on the bank's website, https://cdn.islandsbanki.is/image/upload/v1/documents/Excerpt_from_the_Conflicts_of_Interest_Policy.pdf.

Landsbankinn

Landsbankinn's Corporate Finance division was retained by the Company to oversee the Offering, the process of issuing the New Shares and their admittance to trading on Nasdaq Iceland's regulated market. Landsbankinn accepts a fee for its service to the Company. At close of business on 7 September 2020 Landsbankinn holds 19,396,108 Shares in the Issuer. Landsbankinn's Corporate Banking division is a lender to the Company and provides it with general banking services. Moreover, Landsbankinn has entered into an Underwriting Agreement in relation to the Offering as further disclosed in Chapter 5.13 *The Underwriting* in this Securities Note.

Landsbankinn has established a Conflict of Interest Policy to treat conflict of interest. The aim of the policy is to ensure coordinated handling of conflicts of interest and effective organisational and managerial processes to control any conflicts of interest that may arise.

Investors are advised to acquaint themselves with a summary of the policy which can be found on the bank´s website,
https://www.landsbankinn.com/Uploads/Documents/UmLandsbankann/MiFID/1226-04_Summary_of_Landsbankinns_Conflicts_of_Interest_Policy.pdf.

Kvika banki

Kvika banki was retained by the Company to assist the Company in relation to the Offering. Kvika does not accept any fees for its services to the Company.

Kvika does not hold any Shares in the Issuer. Kvika´s Banking division does not provide any banking services to the Company. Kvika´s FX Sales division does however provide some foreign exchange trading services to the Company. Kvika has in place provisions for the treatment of potential conflicts of interest which can be found on the bank´s website, https://www.kvika.is/asset/2558/reglur-um-radstafanir-gegnhagsmunaarekstrum.pdf.

Investors are advised to further acquaint themselves of the listed potential conflicts involving members of the Board of Directors of Icelandair Group that can be found in Chapter 6.3 *Statements and Potential Conflicts of Interest* in the Share Registration Document, dated 8 September 2020.

2.5 Third Party Information

The Issuer confirms that where third party information has been used in this Securities Note, the information has been accurately reproduced and the source of such information has been identified. As far as the Issuer is aware and able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

03 WORKING CAPITAL STATEMENT

The Chairman of the Board of Directors and the President and Chief Executive Officer of Icelandair Group, for and on behalf of the Issuer, declare that at the date of this Securities Note the Company will have sufficient working capital to fulfil its requirements for the next 12 months thereafter after the Offering. The financial information contained in item 2 below has been prepared by the Company based on the Company's financial position as at 30 June 2020. The information is neither audited nor reviewed.

Item 2 Statement of capitalisation and indebtedness as at 30 June 2020

USD '000	
Non-current liabilities	
Thereof guaranteed	0
Thereof collateralised loans and borrowings	100,358
Thereof not guaranteed/collateralised	159,294
Total non-current liabilities	**259,652**
Current liabilities	
Thereof guaranteed	0
Thereof collateralised loans and borrowings	162,239
Thereof not guaranteed/collateralised	550,449
Total current liabilities	**712,688**
Equity	
Share capital	44,199
Share premium	174,299
Reserves	476
Retained earnings	(99,465)
Non-controlling interest	(1,112)
Total equity	**118,397**
Total capitalisation	**1,090,737**

The Issuer has seen material changes in its capitalisation and the structure of its indebtedness in 2020. As reflected in item 2 the majority of its liabilities are categorized as current following covenant breaches in its long-term loan agreements. The Issuer furthermore incurred heavy losses in 1H 2020 as a result of the unprecedented effects of the COVID-19 pandemic.

As publicly announced and further discussed in the Company's Share Registration Document, dated 8 September 2020, the Company has undergone a restructuring of its financials by reaching agreements with its creditors and large vendors. Most of the Company's deferral agreements in relation to the restructuring are subject to a successful Offering. The agreements realign future cash outflows with anticipated inflows. The upcoming Offering is therefore an essential component of the Company's restructuring efforts and liquidity needs as projected in the conservative ramp-up plan discussed in the Company's Information Memorandum first published 18 August 2020 and republished 4 September 2020 which is incorporated into Icelandair Group's Prospectus by reference, link found here https://www.icelandairgroup.is/information-memorandum/.

04 THE SHARES AND ADMITTANCE TO TRADING

4.1 The Admittance of The New Shares to Trading and Purpose of The Offering

The Company's Shares are traded on the Nasdaq Iceland Stock Exchange under the ticker symbol ICEAIR. The Board of Directors will apply for all the New Shares to be admitted to trading on the regulated market of the Nasdaq Iceland as soon as practically possible.

The COVID-19 pandemic has significantly impacted the demand for international travel and planned flights for most airlines worldwide. Due to this market disruption and increased uncertainty, the Company seeks to strengthen its capital structure and plans to decrease its operating costs going forward. The Company intends to issue new shares in a public offering as part of the Company's actions in response to the COVID-19 pandemic. The Company's Board of Directors is authorized to increase the Company's share capital by up to ISK 23 billion by issuing shares in relation to the Offering for a minimum of ISK 20 billion.

The proceeds of the Offering will be used to improve the liquidity and equity position of the Company as well as secure working capital for a period of expected low production. Icelandair Group bears all cost associated with the issuance of the New Shares and their admittance to trading. The total costs borne by the Company is estimated to be ISK 290 million and consists of a fee to the Co-Managers, costs associated with the scrutiny and approval of the Prospectus by FSA, the Nasdaq Iceland listing fees, the base fee to the Underwriters along with other costs directly associated with the admittance to trading. The net proceeds will therefore amount to approximately ISK 19.7 billion, subject to the Offering being ISK 20,000 million.

Under the Underwriting Agreement, the Underwriters shall receive from the Company an underwriting commission that comprises a base fee which is based on the level of underwriting commitment and a variable fee that differs based on the level of utilization of the underwriting commitment by the Company. Further details on the Underwriters and the Underwriting Agreement can be found in Chapter 5.13 *The Underwriting* in this Securities Note.

4.2 Market Making

At the date of this Securities Note the Company has a market making agreement with Íslandsbanki hf. (the "Market Maker"), whereby the bank has undertaken to act as market maker for the Shares in accordance with Article 116 of the Securities Transactions Act. The Market Maker will place bids and offers in the Shares for a certain amount with a fixed spread between the bid and offer price. The Market Maker shall place bids and offers in the minimum nominal amount of ISK 1,000,000 at a price per share decided by the Market Maker that may not deviate from the last trading price by more than 3 percentage points. The spread between the bid and offer price may not exceed 1.5 percentage points. Maximum amount of total trading each day at nominal value is ISK 8,000,000. The Company will endeavour to allocate a full allotment of New Shares to the Market Maker. This will however only be done after having followed guidelines on allotment which can be found in Chapter 5.9 *Allocation and Reduction of Shares in Case of Oversubscription* in this Securities Note.

The agreement has no specific end-date but can be terminated on behalf of either party with one month's notice. The Offering and the Underwriting Agreement (as defined in Chapter 5.13

The Underwriting in this Securities Note*)* shall not affect the Market Maker in any way. The Company will publicly announce signing of further market making agreements.

4.3 Share Capital and Class of Shares

The total issued share capital of Icelandair Group, at the date of this Securities Note, is ISK 5,437,660,653 nominal value, divided into an equal number of shares, each with a nominal value of one ISK. The share capital consists of a single class of shares and each issued Share carries equal rights at shareholders' meetings according to the Articles of Association.

The Shares are electronically registered at Nasdaq CSD Iceland in accordance with act No. 7/2020 on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments. The ISIN number of the Shares is IS0000013464. The Shares are registered in book-entry form under the name and Icelandic ID No. of the relevant shareholder or nominee pursuant to Article 12 of the Securities Transactions Act. Registration of the ownership of the Shares in electronic form with Nasdaq CSD Iceland, subsequent to Nasdaq CSD Iceland's final entry, formally gives a registered owner legal authorisation to the rights to which they are registered. Dividends and announcements shall at any given time be sent to registered owners or nominees of the respective Shares in the Company's share registry.

Shareholder rights are subject to the Articles of Association and Icelandic legislation in effect at any given time.

4.4 Other Rights Associated with Holding Shares

Investors are advised acquaint themselves with information on rights associated with holdings in Shares that can be found in the following Chapters in the Share Registration Document, dated 8 September 2020, Chapter 5.2.1 *Shareholders' Rights and Obligations,* 5.2.2 *Voting Rights,* 5.2.3 *Increase/decrease of Share Capital and* 5.2.4 *Amendments to Articles of Association.*

4.5 Dividends

The payment of dividends shall be resolved at the AGM based on a proposal from the Board of Directors. The AGM must be held within eight months from the end of the financial year. The AGM decides the payment date which must be within six months of the AGM. The AGM moreover decides the ex-date, i.e. the date as of which the Shares shall start to trade at a value less the agreed dividend payment. The AGM shall, as applicable, also resolve the treatment of losses following a proposal from the Board of Directors.

The Company's share register is held in accordance with the provisions of the Act No. 7/2020 on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments and any subsequent rules based thereof and shall be regarded as a sufficient proof ownership over shares in the Company. Dividend payments are sent to the Shareholder which is at each time registered as an owner of the relevant shares in the Company's share register. Shareholders are responsible for making sure that their residence is correctly entered into the Company's share registry.

There are no provisions in Company's Article of Association regarding the expiration of the right to dividends that have not been collected. As a result, such rights lapse after four years according to Act No. 150/2007 on the Limitation Periods of Claims.

The Board of Directors has adopted a dividend policy according to which the Company's goal is to pay 20-40% of each year's annual net profit as dividend to its shareholders. The final decision on dividend payments will be based on the financial position of the Company, operating capital requirements and market conditions. Dividend payments may at times also be impacted by the Company's liquidity needs, financial covenants and other possible factors that might limit dividend payments to shareholders at any given time. These considerations might affect the proposed amount of dividend and even lead to no dividend payment. A dividend was paid for fiscal years 2015, 2016 and 2017. No dividends were paid for fiscal years 2018 and 2019.

The Company is subject to restrictions on dividend payments in accordance with the provisions of the Public Companies Act. According to Article 99 (1) of said Act, the Company is only authorised to allocate profit as dividends in accordance with (i) approved annual accounts for the immediate past fiscal year, (ii) profit brought forward from previous years and (iii) distributable reserves, after deduction of (a) any uncovered losses and (b) moneys which, according to law or the Articles of Association, shall be contributed to a reserve fund or for other use.

Moreover, the Company is bound by covenants concerning dividend payments stipulated in loan agreements as applicable.[4]

i. No payments according to any loan agreements entered into by the Company or any of the subsidiaries within the Group are past due;
ii. The financial conditions set by the loan agreement are complied with;
iii. The Company's equity ratio maintains a minimum of 30% post dividend payment;[5]
iv. The profits paid out are not the result of a one-off sale of fixed assets, due to the revaluation of assets or due to a change in accounting procedures.

The Company follows Nasdaq Iceland's proposals on dividend payments, which is that trading in the Shares exclusive of dividends begins the business day immediately following the day the dividend proposal is approved and that payment of dividends will be made no later than 30 days after the record date. With the exception of dividend payments, shareholders are not entitled to any of the Company's profits.

The Company is bound by covenants concerning dividend payments that loan agreements and other agreements may contain at any given time. Dividend payments will not be paid during the time the government guaranteed credit facility is in place, neither during the drawdown period, or if drawn on, while it is being amortized.

The declaration and payment of future dividends will be determined by the Board of Directors and shareholders. There can be no assurance that the Company will pay dividends in the future.

[4] Covenants listed in items i-iv are in place in some and not necessarily all of the Company's loan or financing agreements.
[5] Although this ratio is stated in a current loan agreement it will be revised and aligned with the Company's post-COVID-19 longer term equity ratio target of 25%.

4.6 Mandatory Takeover Bids

Icelandair Group is subject to the provisions of Chapter X. of the Securities Transactions Act, legislation that is based on Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004. In accordance with Article 100 (1) of the Securities Transactions Act, any party that, directly or indirectly, acquires control of the Company, is obligated to make other shareholders of the Company a takeover bid within four weeks of acquisition. The offer price must at minimum match the highest price paid for the Shares by the acquirer or her/his partners during the previous six months.

Control of the Company in this respect refers to a party, and any party acting in concert with him/her, has acquired:

i. In total at least 30% of the voting rights in the Company;

ii. The right to control at least 30% of the voting rights in the Company by virtue of an agreement with other shareholders;

iii. The right to appoint or dismiss the majority of the members of the Board of Directors.

At the date of this Securities Note, to the Company's best of knowledge, no party, or parties, in control of Icelandair Group are under an obligation to make a mandatory takeover bid, cf. Article 100 (7) of the Securities Transactions Act. Mandatory takeover bids can only be evoked if any one party acquires more than 30% of Shares in Icelandair Group, cf. Article 100 (1) of the Securities Transactions Act, unless two or more shareholders have previously agreed on the joint exercise of their Shares. No mandatory takeover bids have been executed for the last financial year 2019 and for the current financial year up to the date of this Securities Note.

4.7 Redemption Provisions

According to Icelandair Group's Articles of Association, shareholders are not obligated to accept their Shares being redeemed, except as stipulated by law.

Under Article 24 of the Public Companies Act, a shareholder holding more than $^{9}/_{10}$ of a company's share capital and controlling an equivalent proportion of its voting rights may decide, in conjunction with the board of directors of the company, that other shareholders in the company be subject to a mandatory redemption of their shares. Correspondingly, each individual minority shareholder may demand redemption from the shareholder. In respect of companies with shares traded on a regulated market the redemption value must correspond to the market value, unless special reasons (such as following a takeover bid) require otherwise.

Article 110 of the Securities Transactions Act stipulates the same provisions on redemption in relation to takeover bids. The Article states that if the offering party and parties acting in concert with said party acquire more than $^{9}/_{10}$ of the share capital or voting rights in the target company, the offering party and board of the company may jointly decide that other shareholders shall be subject to redemption of their shares. The same right is afforded to the minority shareholders in such cases, i.e. the minority shareholders may demand that their shares be redeemed. Article 110 of the Securities Transactions Act applies from the day the shares of a company are admitted to trading on a regulated market and remains in effect as long as the shares are listed.

4.8 Dissolution or Merger of The Company

The provisions of Chapter XIV. of the Public Companies Act applies to a merger of the Company with other companies as per Article 14 of the Articles of Association. To pass, such a resolution needs the same proportion of votes needed to amend the Articles of Association. The same shareholders' meeting shall, in case of dissolution, resolve how to dispose of its assets and pay off its debt as stipulated by Chapter XIII. Of the Public Companies Act.

4.9 Tax Issues

The taxation of income from investments in shares is dependent on current tax legislation at any given time, which is subject to change. What follows is a discussion of the main aspects of current tax legislation. The discussion is not exhaustive, and investors are encouraged to familiarise themselves with all changes and revisions to the tax legislation and seek outside expert counsel of any and all specific tax issues relevant for them, such as potential tax consequences of subscribing for New Shares in the Offering and receiving the warrants, including the effects of foreign legislations and double taxation treaties Iceland has made with other countries.

Icelandair Group will not withhold any tax, deductions or other public levies in relation to trading in the Shares other than those stipulated by the provisions of Act No. 94/1996 on Withholding of Tax on Financial Income (the "Capital Income Tax Act"), Act No. 90/2003 on Income Tax (the "Income Tax Act") and Act No. 45/1987 on the Withholding of Public Levies at Source, in addition to other legislation in effect or that may be passed in the future.

Prospective investors who are in any doubt as to their personal tax position, should consult their professional advisers

4.9.1 Taxation on dividend payments

The Company is obligated to withhold tax on dividend payments to individuals and legal entities in Iceland, in accordance with provisions of the Capital Income Tax Act. The withholding tax rate applicable to dividend income in Iceland is 22% at the date of this Securities Note.

The Company is obligated to withhold tax on dividend payments to non-residents. As in the case of Iceland the dividend income tax rate of non-residents individuals is 22%.

For income tax purposes most taxable legal entities in the form of limited liability companies, registered in a country within the EEA, EFTA or Faroe Islands, may declare a deemed deduction of the same amount as the dividend received on their tax returns, cf. Article 31 (9) of the Income Tax Act. Consequently, there will be no effective taxation of dividend income of such companies. If the withheld tax is higher than the levied tax, the difference will be refunded upon assessment of tax returns.

At the date of this Securities Note the dividend income tax rate of non-resident legal entities is 20%, cf. section b of Article 70 (7) of the Income Tax Act. If a non-resident legal entity is registered in a country within the EEA, EFTA or Faroe Islands, it enjoys the same deduction rights as enjoyed by domestic legal entities and have been described above.

Double taxation treaties may contain provisions of exemptions from withholding tax, or provisions for lowering the tax rate. Iceland has made double taxation treaties with (at the date of this Securities Note) 43 countries. The treaties are generally in accordance with a model taxation treaty from OECD (OECD Model Tax Convention on Income and on Capital). Reference is made to the website of the Iceland Revenue and Customs for details on existing double taxation treaties.

4.9.2 Taxation on profit from the sale or disposal of shares

Capital gains constitute taxable income according to the Income Tax Act. The current capital income tax rate is 22% in case of Icelandic resident individuals and 20% in case of limited liability companies. Upon the sale or other disposal of shares, the shareholders' average acquisition costs for all shares of the same class and type will be used as the tax base on which the capital gain of the sale/disposal is calculated.

Capital gains from the sale of shares by individuals not residing in Iceland are taxable in Iceland according to the Income Tax Act. For individuals the income tax rate is 22% and for foreign legal entities the tax rate is 20%, unless existing treaties contain provisions to the contrary. However, non-resident limited liability companies within the EEA, EFTA or Faroe Islands can deduct from their income, any gains from the sale or other disposals of shares.

Individuals can deduct losses from the sale of one share class from the profits from the sale of other shares. The profit and loss must however occur within the same calendar year. Losses from the sale of shares cannot be carried forward and offset against future capital gains from the sale of shares. In the case of legal entities, capital gains from the sale or disposal of shares are taxable income according to the Income Tax Act. However, said Act permits limited liability companies to deduct from their income any gains from sale or other disposals of shares.

4.10 Transferability of Shares

There are no limitations on the transferability of the Shares, and shareholders may pledge their Shares unless prohibited from doing so by law. Only general legislative rules apply to the transfer of Shares.

05 TERMS AND CONDITIONS OF THE OFFERING

5.1 Details of The Offering

This Securities Note is constructed in connection with the Offering. The Offering relates to the New Shares, which are all in the same class, bear the same rights and are identical to the existing shares in Icelandair Group. Investors who will be allocated New Shares in the Offering will receive Warrants amounting to 25% of the nominal value of the New Shares issued corresponding to up to ISK 5,750,000,000 in nominal terms.[6] Further details on the Warrants can be found in Chapter 5.12 *The Warrants* in this Securities Note.

The subscription period is expected to start at 9:00 GMT on 16 September 2020 and end at 16:00 GMT on 17 September 2020 (the "Subscription Period"). The Issuer reserves the right to amend the dates of the Subscription Period at their sole discretion. The Subscription Period may not be shortened but may be extended as required by law *inter alia* in the event of the publication of a supplement to the Prospectus. Any amendments to the Subscription Period will be publicly announced and advertised. The results of the Offering are expected to be published at latest before midnight on 18 September 2020. Nasdaq Iceland will subsequently give an answer to the Issuer's application to have the New Shares admitted to trading on the regulated market of Nasdaq Iceland. Information on the allocation of Shares to investors participating in the Offering (i.e. confirmation or reduction of subscriptions) is expected to be sent to investors on the same day. The final due date for payment is expected 23 September 2020. New Shares will be delivered to the investors once the share capital increase has been duly registered with relevant authorities and issued through the Nasdaq CDS Iceland which will be at the latest on 9 October 2020, taking into consideration regulatory deadlines. Every effort will be made to deliver the New Shares sooner than that. Pursuant to the above information the first day of trading the New Shares on the regulated market of Nasdaq Iceland may be on 12 October 2020 but it could be sooner or later than that. The Issuer reserves the right to cancel the Offering at their sole discretion at any time up until the start of the Subscription Period.

The Issuer will cancel the Offering if the minimum number of subscriptions for the New Shares are not received, amounting to ISK 20,000,000,000.[7] The Issuer will in such an event publish an announcement thereof. If the Offering is cancelled pursuant to the above, all subscriptions for New Shares in the Offering and allocations made on the basis thereof will consequently be invalidated. It will be publicly announced if the Offering is cancelled or if the subscription period is extended or postponed. If the subscription period is extended or postponed, a supplement to this Securities Note will be published explaining the change. All important new information, considered to have an impact on investors' assessment of the New Shares, that has come to light since the confirmation of this Securities Note will also be published. The supplement shall be approved within five working days and published in the same manner as the original Securities Note. In accordance with Article 17 of the Prospectus Regulation, investors who have already agreed to purchase or subscribe for securities before the supplement is published shall have the right to withdraw their subscriptions for a period of at least two working days following the publication of the supplement. Neither the Issuer nor the Co-Managers are aware

[6] Subject to the Offering amounting to 23,000 million.
[7] For the avoidance of doubt a successful Offering can therefore be subscriptions of New Shares from investors amounting to ISK 14,000,000,000, as the Underwriters have agreed to collectively purchase shares amounting to ISK 6,000,000,000.

whether individual shareholders, members of the Board or Executive Management, or any other person intends to subscribe for New Shares in the Offering or whether any investor intends to subscribe for more than 5% of the Offering.

5.2 Resolution to Issue the New Shares

At a shareholders' meeting of the Company held on 22 May 2020, the shareholders of the Issuer granted the Board of Directors the authority to increase the Issuer's share capital by up to 30,000,000,000 shares for the purpose of strengthening the Company's liquidity and equity position. Furthermore, the shareholders' meeting decided that shareholders would waive their pre-emptive rights to the New Shares.

The shareholders' meeting passed the following resolution:

"The Company's Board of Directors is authorized to increase the Company's share capital by up to ISK 30,000,000,000 in nominal terms (ISK thirty billion), by issuing shares, all at once or in separate steps. The shareholders waive their pre-emptive rights to the new shares. The board of directors decides the share's offer price and sales arrangements. Subscriptions shall take place in accordance with the Company's Articles of Association and Chapter V of Act No 2/1995 respecting Public Limited Companies. The new shares will be of the same share class as other outstanding shares in the Company. The new shares may be paid for by means of the set-off of indebtedness or in another manner than with cash, according to the sale arrangements set by the board of directors. The provisions of Art. 5 – 6, Art. 6 a – Art. 6 c and Art. 7 – 8 of Act No 2/1995 respecting Public Limited Companies shall apply hereto as applicable. The new shares shall provide the associated rights to the Company from the date of registration. This authorization of the Board of Directors shall be valid until 1 September 2020, to the extent which it has not been utilized."

On 18 August 2020, the Board of Directors called a new shareholders' meeting seeking a renewal of the authorization. The final proposal dated 2 September 2020 is as stated below:

"The Company's Board of Directors is authorized to increase the company's share capital by up to ISK 23,000,000,000 in nominal terms (ISK twenty-three billion), by issuing shares in relation to a public share offering for a minimum of ISK 20,000,000,000 (ISK twenty billion). The shareholders waive their pre-emptive rights to the new shares. The share price shall be ISK 1.0 per share and further terms, in accordance with the decision of the Board of Directors, will be included in a prospectus published in advance of the public share offering. Subscriptions shall take place in accordance with the Company's Articles of Association and Chapter V of Act No 2/1995 respecting Public Limited Companies. The new shares will be of the same share class as other outstanding shares in the Company. The new shares shall provide the associated rights to the Company from the date of registration. This authorization of the Board of Directors shall be valid until 15 October 2020, to the extent which it has not been utilized."
Further the Board of Directors have proposed to the shareholders' meeting that they will be authorized to issue the Warrants relating to subscriptions in the Offering. No further authorisations or approvals are needed to issue the New Shares. Should the maximum amount of authorized New Shares be sold in the Offering the total nominal share capital of the Company will amount to ISK 28,437,660,653 post settlement of subscriptions.

5.3 Size and Price of The Offering

Investors are offered two subscription options, Order Book A and Order Book B, which differ in terms of size of subscription and allocation. Further details on allocation of shares in case of oversubscription are found in Chapter 5.9 *Allocation and Reduction of Shares in Case of Oversubscription* in this Securities Note. A brief description follows, however, for the full conditions of the Offering, investors must read Chapter 05 *Terms and Conditions of The Offering* of this Securities Note in its entirety.

Order Book A for subscriptions exceeding ISK 20 million in purchase value

A total of 17,000,000,000 New Shares are offered for sale in Order Book A. Order Book A does not limit the maximum size of orders. The minimum size of each subscription in Order Book A must exceed ISK 20,000,000 (purchase value) for each subscriber.

Order Book B for subscriptions up to ISK 20 million in purchase value

A total of 3,000,000,000 New Shares, are offered for sale in Order Book B. Order Book B is subject to a maximum subscription amount of ISK 20,000,000 (purchase value) for each subscriber. The minimum size of each order is restricted to ISK 100,000 (purchase value).

Offering Price for Order Book A and Order Book B.

The offering price will be the same in Order Book A and B, a fixed price of ISK 1 per Share (the "Offering Price"), in accordance with a decision of the Board of Directors on 18 August 2020.

Based on final demand of the subscription, the Issuer reserves the right to amend increase or decrease, the number of shares that are offered in Order Book A and Order Book B. The decision on the final size of the Offering and the distribution between Order Book A and B will be made upon allocation and will be made at the sole discretion of the Issuer.

5.4 Subscriptions

Subscriptions shall be registered electronically on a special-order form (subscription website) which can be reached via this website: https://www.landsbankinn.is/utbod/icelandair. A link on the subscription website will be available through the Co-Managers websites, www.islandsbanki.is and www.landsbankinn.is and on the Company's website www.icelandairgroup.is. Orders will not be accepted in any other format. The subscription form will be available in Icelandic and English.

All subscriptions are binding for the respective investor. Conditional subscriptions will not be permitted. Investors can submit multiple subscriptions. Investors subscribing in Order Book B cannot subscribe in total for more than the maximum order size, ISK 20.000.000 (purchase value). Subscriptions must be confirmed by the investors themselves or a person who has the required authority or power of attorney from the investor. A person completing a subscription based on power of attorney shall, should the power of attorney not be recognized by the principal, be deemed to have delivered the subscription in his/her own name.

In order to submit a subscription, investors have to register to the relevant Order Book A or B on the subscription websites, through any of the following user IDs:

i) Electronic ID on a smartphone; or

ii) User ID requested through the subscription website and sent as a digital document to the investor's Online Bank in Iceland; or

iii) User ID obtained from the Co-Managers, by signing a witnessed application or any other method of verification which the Co-Managers consider satisfactory

Electronic confirmation from the subscription website is required as valid proof of subscription. Such confirmation will appear at the end of the registration process and also sent to the e-mail address provided by the investor. Investors must specify the custodian (Icelandic bank or other Icelandic organization with a membership agreement with the Nasdaq CSD Iceland) which they wish to use to receive the Shares upon settlement.

Pursuant to the subscription form investors declare that:

- They have agreed to the terms of the Offering as set out in this Securities Note and read the information in the Prospectus of which this Securities Note forms a part;
- They have read and understood the information on Íslandsbanki's and Landsbankinn's rules on conflicts of interest, see information in this Securities Note, and they are aware of the conflicts of interest specified in the Securities Note;
- They have completed the investor questionnaire in the Subscription System thus providing the Co-Managers with information on their knowledge and experience of securities investments relevant to the Warrants.They are aware that investment in equities involves a high degree of risk and the investment in shares issued by the Company carries substantial risks;
- They are aware that all subscriptions are binding;
- They consent the Co-Managers sharing necessary information, such as ID numbers and custody accounts, on their respective identities and subscriptions among themselves, with the Company or to others, such as custodians, for the purpose of managing and executing the Offering. Information related to the Offering is processed and stored in an auction system at the Co-Managers processor, Kóði ehf. Further information on the data protection policies of the Co-Managers may be obtained at their respective websites;
- They are aware that they must own a custody account to receive the New Shares upon settlement;
- They agree that they are participating in the Offering of their own initiative;
- That they meet all the conditions for participation in the Offering.

Investors can obtain information on the Offering and the subscription websites for Order Book A and B from Íslandsbanki's Corporate Finance Team and Landsbankinn's Corporate Finance Team. Investors can obtain this information by e-mail between 9:00 GMT and 18:00 GMT during the Subscription Period. Investors can contact the Co-Managers by e-mail.

Íslandsbanki hf. Corporate Finance contact information

Email	utbod@islandsbanki.is

Landsbankinn hf. Corporate Finance contact information

Email	utbod@landsbankinn.is

5.4.1 Asset Management

Financial institutions which offer asset management services pursuant to Article 3 (6.c) of Act No. 161/2002 on Financial Undertakings are granted certain exemptions with respect to subscriptions and subscription forms in Order Book A and/or Order Book B. They are given the opportunity to submit subscriptions on behalf of their clients directly into the Subscription System by filing in and uploading template available in the Subscription System. Either by individual name bases or by one cumulative offer. If a single cumulative offer is placed, information about the number of clients and individual offer size must be delivered to the Co-Managers. A precondition for such a subscription is that the Co-Managers reserve the right to demand a satisfactory statement from a financial institution, stating that it has the required authority or power of attorney from the investor in accordance with authority provided in a valid asset management agreement with the investor and a statement saying that the financial institution guarantees the payment of the purchase price for the subscription. If an asset management client has subscribed himself/herself on either of the subscription websites and an asset management service has as well submitted a subscription on his/her behalf, both subscriptions are valid.

5.5 Expected Timetable

The timetable set out in Item 3 provides certain indicative key dates for the Offering:[8]

Item 3 Expected timetable for the Offering

Subscription Period commences	Expected to be on 16 September 2020
Subscription Period ends.	Expected to be on 17 September 2020
Conclusion of the Offering and allotment published	Expected to be on 18 September 2020
Payment Date	Expected to be on 23 September 2020
Delivery of the New Shares	Expected to be at latest on 9 October 2020
Listing and commencement of trading in the New Shares on Nasdaq Iceland	Expected to be at latest on or about 12 October 2020
Listing and commencement of trading with Warrants	Expected to be at latest on 15 October 2020

5.6 Conditions for Participation

Investors participating in the Offering must meet certain eligibility conditions.

The Offering is only marketed in Iceland. Participation in the Offering is open to legal entities with an Icelandic identification number (*icel. kennitala),* and financially and legally competent individuals according to Act No 71/1997 on legal competence, having an Icelandic identification number, having regard for restrictions that may be imposed by law. In addition to the aforementioned, investors must have completed the investor questionnaire in the Subscription System where they provide the Co-Managers with information on their knowledge and experience of securities investments relevant to the Warrants. This is to determine whether the Warrants are appropriate for the respective investor

[8] These dates assume that no changes are made to the Subscription Period and that processing of subscriptions proceeds according to schedule. The Company will publicly announce all changes made in the Subscription Period.

The above conditions stipulate that if the person's estate has been declared bankrupt and such proceedings have not been completed before the end of the subscription period, that person may not participate in the Offering. Persons who are not otherwise legally competent to manage their financial affairs may not participate in the Offering.

The Offering is not directed at or marketed to any investors domiciled outside Iceland and consequently, New Shares are not offered for sale in jurisdictions where public offerings such as this are contingent on the competent authorities of that jurisdiction having received a prospectus published by the Issuer in connection with such offering, or where such offerings would be subject to further requirements than the approval of the Icelandic regulators of a prospectus in connection with the offering. Investors domiciled outside of Iceland who nevertheless subscribe for New Shares in the Offering will be deemed to have taken part in the Offering within Iceland and by doing so will be deemed to have forfeited any and all objections they might otherwise have.

Employees of the Co-Managers may participate in the Offering but may be subject to stricter rules applicable to their respective subscriptions than those described here. Such employees shall seek guidance from their respective compliance departments, as the case may be, on how to submit their orders, and shall in all respects comply therewith.

Investors are made aware that the Issuer may, at their own discretion and without stating the grounds, therefore, reject any subscription, submitted in the Offering (including offers from individual investors in part or in full), wholly or partly. Any monies received in respect of subscriptions that are not accepted in whole or in part will be returned to the investors without interest and at the investors' risk.

5.7 Notification of The Results of The Offering

The results of the Offering are expected to be published on 18 September 2020. This date is based on the assumption that no changes are made to the Subscription Period and that processing of subscriptions proceeds according to schedule. Nasdaq Iceland will announce the final decision on the Issuer's application to have the New Shares admitted to trading on the regulated market of Nasdaq Iceland.

5.8 Confirmation of The Ability to Pay or Collateral for Payment

The Co-Managers reserve the right to demand confirmation of the investor's ability to pay and/or collateral for payment from investors. If the investor does not agree to this demand from the Co-Managers before the close of the Subscription Period or before the end of any other deadline in relation to the Offering, the Co-Managers reserve the right to reject and invalidate the subscription of the investor, wholly or partly.

The Co-Managers have sole discretion to decide whether confirmation of the ability to pay and/or collateral is sufficient. Sole discretion means that the Co-Managers will assess each confirmation separately and they are not obligated to reveal how the decision was made and the counterparty will not be given the opportunity to object to the decision or its application.

5.9 Allocation and Reduction of Shares in Case of Oversubscription

In the event that the cumulative number of New Shares of valid subscriptions exceeds the number of New Shares in the Offering, New Shares will be allocated to individual subscribers based on the following guidelines. These guidelines shall be considered in the following order

- Subscriptions in Order Books A may be reduced proportionally, limited to a maximum number of New Shares and/or reduced or rejected in another manner at the sole discretion of the Issuer.
- Subscriptions in Order Books B may be reduced proportionally, limited to a maximum number of New Shares and/or reduced or rejected in another manner at the sole discretion of the Issuer. However, efforts will be made not to reduce individual subscriptions equal or below ISK 1,000,000 purchase value.
- Efforts will be made not to apply proportional reductions to subscriptions submitted by employees of the Company based on the employee register as of date 1 April 2020 and are currently employed.
- Efforts will be made not to apply proportional reductions to subscriptions that are in proportion, or lower, to existing holdings by existing shareholders based on the Company's share register as of 15 September 2020, which otherwise will lead to dilution of existing shareholders.
- Efforts will be made to allocate a full allotment of New Shares to the Market Maker.
- As detailed in Chapter 5.13 *The Underwriting* in this Securities Note, the Underwriters shall be permitted but not obliged, to subscribe for New Shares in the Company, amounting to 500 million shares in total, equally divided between the Underwriters. If valid subscriptions in the Offering exceed 20,000 million shares, efforts will be made to allocate full allotment to the Underwriters.

Notwithstanding, the Company cannot guarantee allotment in the aforementioned order and therefore it shall be dualy noted that the Issuer has sole right to reduce or reject any subscription. Sole discretion means that the Issuer is not obliged to reveal how the reduction or rejection was decided and the counterparty will not be given the opportunity to object to the decision or its application.

5.10 Payment Instructions and Share Delivery

Investors will be informed of allocation once the result of the Offering has been publicly announced. Information on allocation is expected to be sent to investors on 18 September 2020 and payment instructions are expected to be made available on the same day. Investors may access information about their allocation in the Offering on the subscription websites using the same access ID that was used to register subscriptions in the Offering during the subscription period. Those persons who have not been allotted New Shares will not be notified.

Payment instructions will be in the form of electronic invoices made out to the name and ID number of each investor allocated New Shares in the Offering. The electronic invoices will be accessible in the investor's online bank. The information will be sent to the e-mail address specified by the investor in the subscription process. Investors are responsible for ensuring that the e-mail address provided is valid and able to receive the necessary documentation.

Investors participating in the Offering must settle their allotted shares in cash no later than the expected payment date 23 September 2020. No other form of payment will be accepted for the New Shares. If payment is not received on its due date, it may be collected with late payment interest (penalty interest) in accordance with Act No. 38/2001 on interest and indexation in a manner provided for by Icelandic law. The Co-Managers reserve the right to unilaterally cancel unpaid subscriptions on its due date instead of collecting the debt. Further, the Co-Managers reserve the right to sell the New Shares to other investors on all unpaid subscriptions.

To take delivery of the New Shares each investor must have a custody account in Iceland and must state the account number in the subscription form. Custody accounts (icel: *Vörslureikningur- VS reikningur)* can be established with the Co-Managers and other financial institutions in Iceland. If the investor does not hold a custody account with the custodian specified in the subscription, or if the custodian information provided by the investor is erroneous, the Co-Managers will open a Custody account in the name of the investor at Landsbankinn so that is possible to deposit the New Shares allocated to the investor into a custody account in accordance with the above. The establishment of custody accounts requires verification of identification by the relevant custodian in accordance with Act No. 140/2018 on measures against Money Laundering and Terrorist Financing. Applicants who have designated an existing custody account on the subscription form will not need to verify their identity unless specially requested by the custodian holding their custody account.

Investors that need to verify their identity as previously disclosed shall do so before 1 October 2020, otherwise risking that the investor may not be allocated New Shares and may not begin successful trading in the New Shares. The New Shares are expected to be delivered to the investors at the latest on 9 October 2020 subject to the condition that a satisfactory payment has been received. The New Shares will be delivered electronically via Nasdaq CSD Iceland and the Co-Managers will ask the depositary nominated by the investor, to receive the New Shares and deposit them in a custody account held by the investor with the custodian.

The Co-Managers are responsible for the collection and the settlement of all transactions of the Issuer in connection with the Offering. In the event that the Offering will be cancelled or annulled, and investors have settled the transaction following the payment instructions, the Issuer will settle and refund their overpayment.

No fees or costs will be imposed on the investor in respect of their subscription by the Issuer or the Co-Managers. Investors are urged to consider whether any costs or fees will be charged by other parties in connection with the transaction.

5.11 Selling Restrictions

The issue of New Shares upon subscription in the Offering, to investors resident in, or who are citizens of countries other than Iceland, may be affected by the laws of the relevant jurisdiction. Prospective investors should consult their professional advisers as to whether they require any governmental or other consent or need to observe any other formalities to enable them to subscribe to the New Shares in the Offering. If a person is acting on behalf of an investor (including, without limitation, as a nominee, custodian or trustee), that person may be required to provide representations and warranties to the Company with respect to the subscription for the New Shares. Neither the Issuer nor the Co-Managers, nor any of their respective representatives, are making any representation to any recipient, offeree, subscriber to the New Shares regarding the legality of an investment in the New Shares by such recipient, offeree, subscriber or purchaser under the laws applicable to such recipient, offeree, subscriber or purchaser.

The Prospectus does not constitute or form part of an offer or solicitation to purchase or subscribe to the New Shares in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction where such distribution would require any additional prospectus, registration or measures other than those required under Icelandic law and regulations or where they would conflict with regulations in such jurisdiction. Persons into whose possession this Prospectus or any New Shares may come must inform themselves about and observe any such restrictions on the distribution of this Prospectus and the offering and sale of the New Shares. Neither the Issuer nor the Co-Managers accept any legal responsibility for any violation by any person. This Prospectus may not be sent to any person in a jurisdiction in which it would not be permissible to deliver the New Shares and the New Shares may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into any such jurisdictions. No New Shares have been offered or will be offered to the public pursuant to the Offering outside of Iceland.

If an investor (including, without limitation, its nominees and trustees) is outside Iceland and wishes to subscribe to the New Share in the Offering, the investor must satisfy itself as to full observance of the applicable laws of any relevant territory including obtaining any requisite governmental or other consents and observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories.

The information set out in this Chapter 5.11 Selling Restrictions is intended as a general overview only.

5.12 **The Warrants**

Warrants (*icel. áskriftarréttindi)* will be issued along with the New Shares sold in the Offering. The Warrants grant their holders a right, without obligation, to further subscribe to shares in the Company over the next two years as further detailed below. The Warrants are issued free of charge.

The Warrants represent a nominal value of 25% of the nominal value of the New Shares issued as a result of the Offering, corresponding to up to ISK 5,750,000,000[9] in nominal terms.

The subscription rights under the Warrants may be exercised in three separate steps during three separate exercise periods from the date the New Shares are issued by the Nasdaq CSD Iceland, in accordance with terms decided upon by the Board of Directors. The exercise period of the Warrants will be a ten day period immediately following the estimated publishing dates, of Icelandair Group's quarterly financial statements for Q2 2021 (the "First Exercise Period"), Q4 2021 (the "Second Exercise Period") and Q2 2022 (the "Third Exercise Period") collectively, (the "Exercise Periods"). The exercise price per share associated with the Warrants will be the same as the Offering Price with an addition of 15% annual interest, according to a 30/360-day count convention. The payment date for the Warrants is the last date in each Exercise Period.

[9] Assuming, ISK 23,000,000,000 capital share increase in the Company.

The expected payment dates are on 13 August 2021 for the First Exercise Period, 18 February 2022 for the Second Exercise Period and 12 August 2022 for the Third Exercise Period. The last interest date is the payment date in each Exercise Period.

The Warrants shall be divided into three equal parts, one part exercisable in each Exercise Period. If the Warrants cannot be divided into three equal parts, the non-divisable Warrant or Warrants will be exercised in the first and/or second periods.[10] Since the nominal value of the Company's share capital is equal to ISK 1 (one Icelandic Krona) the Warrants' must follow suit. The amount of Warrants issued to shareholders will therefore be rounded down to the nearest amount that can be divided by four. All Warrants exercised in each Exercise Period are expected to be settled in the next seven business days following the end of each Exercise Period. Any Warrants not exercised during the corresponding Exercise Period will lapse and become void.

It shall be duly noted that the New Shares will be issued within the same share class as the Shares in Icelandair Group. The Company will issue any shares resulting from the exercise of the Warrants separately from the New Shares in due time. The Warrants will be freely tradeable and transferrable, independent of the issued Shares, until such time that they can be exercised. The acceptance and the trading of the Warrants require an appropriateness test as described in Article 16 of the Securities Transactions Act.

The Warrants will be issued, traded and settled in ISK. Item 4 displays the exercise price for the Warrants at the end of the respective Exercise Periods. The first interest date will be the payment date of the New Shares which is expected to be on 23 September 2020. Please note that the expected publishing and payment dates shown in Item 4 are not confirmed publishing dates and are subject to change. Changes to the Company's financial calendar are publicly announced in accordance with the Nasdaq Iceland Rules for Issuers. Final exercise price and expected payment dates will be further detailed in a securities note for the Warrants.

Item 4 Exercise price for Warrants

Publishing date	Payment date	Exercise price
3 August 2021	13 August 2021	1.13
8 February 2022	18 February 2022	1.22
2 August 2022	12 August 2021	1.30

The Company will be committed to finalize a public listing (i.e. admittance to trading) of the Warrants no later than 15 October 2020 and will announce publicly when the listing has taken place. The warrants will be issued to the holders concurrently with the listing.

The Board of Directors of the Company has issued a proposal for an upcoming Shareholders' Meeting that will be held 9 September 2020. The proposal will grant the Board of Directors an authorization to issue the Warrants in relation to subscriptions in the Offering and decide their terms. These terms have already been decided upon by the Board of Directors conditioned that the proposal will be approved by the Shareholders' Meeting. The proposal is as stated below:

"The Company's Board of Directors is authorized to issue warrants which investors will receive along with the new shares issued following the public share offering amounting to 25% of the

[10] For example, if an investor owns 3,200 Warrants, he/she will be able to exercise 1,067 Warrants in the First Exercise Period, 1,067 Warrants in the Second Exercise Period and 1,066 Warrant in the Third Exercise Period.

nominal value of the total new share issued corresponding to up to ISK 5,750,000,000 in nominal terms (ISK five billion seven hundred and fifty million). Subscription rights under the warrants may be exercised all at once or in separate steps for up to two years in accordance with terms decided upon by the Board of Directors. This authorization of the Board of Directors shall be valid until 15 October 2020, to the extent which it has not been utilized. The Board of Directors is furthermore authorized until 30 November 2022 to increase the Company's share capital in relation to exercise of the warrants. The shareholders waive their pre-emptive rights to the warrants and shares issued in relation to their exercise." To the best of the Company's knowledge no risk is attached to receiving the Warrants. Risk factors of the Warrants will be explained in detail in the Securities Note that will be issued in association with the Warrants' admittance to trading.

The Company expects the Shareholders' meeting to agree to the aforementioned proposal and will publicly announce all decisions regarding the issuance and exercise of the Warrants.

5.13 The Underwriting

On the date of this Securities Note the Company and Íslandsbanki hf. and Landsbankinn hf. have entered into an underwriting agreement (the "Underwriting Agreement"), concerning the Offering. Íslandsbanki and Landsbankinn (jointly named the "Underwriters" and separately named the "Underwriter") have agreed, subject to certain conditions, to collectively purchase, from the Company, New Shares in the Offering at the Offering Price for a total consideration of up to ISK 6,000 million (the "Underwriting Commitment") and is divided in equal proportions between the Underwriters (i.e. 50%/50%). The Underwriting Agreement is conditioned on minimum participation by investors in the Offering of ISK 14,000 million. The Underwriting Commitment will be available in cash and the payment date is expected to be the latest 8 October 2020.

In the Underwriting Agreement, the Company makes certain customary representations and warranties, including with respect to the Company's business, the New Shares, the contents of the Prospectus and the use of proceeds from the Offering. The Company further agrees to indemnify the Underwriters against claims and actions that may be made by any purchaser of the New Shares all losses and liabilities arising out of or in connection with the Offering.

The compensation to the Underwriters for their commitments hereunder is threefold and comprises the following: a base fee equivalent to 3% of the Underwriting Commitment and a variable fee of 2% of the eventually utilized amount of the Underwriting Commitment. Lastly, the Underwriters shall be permitted to subscribe for New Shares, including any rights that may be attached to such New Shares, amounting to 500 million shares in case of oversubscription in the Offering.

If the Underwriters get allocated Warrants, they shall be delivered in the same manner as is applicable to other investors and each Underwriter has full discretion whether to execute the Warrants so allocated. The base and variable fees will be equally divided between the Underwriters.

Registration Document

8 September 2020

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01 RISK FACTORS

Icelandair Group hf., ("Icelandair Group", the "Company" or the "Issuer") is an Icelandic aviation company whose main purpose is the operation of an international route network through a hub-and-spoke model[1] based in its home market, Iceland. Icelandair Group is the parent company of several subsidiaries, hereinafter collectively referred to as "the Group". The cornerstone of the Issuer's operations is Icelandair ehf. ("Icelandair" or the "Airline") which in 2019 accounted for 77% of the Group's revenues.

What follows in this Chapter 01 *Risk Factors* is a description of the risks that the Issuer believes are material to the Group's operations and the industry in which it operates. The Airline is by far the most important single factor to the Group's results of operations and is therefore the main subject of the risks and uncertainties in this Chapter 01 and throughout this Share Registration Document.[2] Risk factors that specifically only apply to other subsidiaries of the Company are considered immaterial given their limited financial impact. More detailed coverage of the Company's subsidiaries can be found in Chapter 3.2.1 *Subsidiaries and associates* in this Share Registration Document.

An investment in shares bears inherent risk. Before making an investment decision with respect to shares issued by Icelandair Group (the "Shares") investors should carefully consider the risk factors and all information contained in this Share Registration Document as well as the associated Securities Note both dated 8 September 2020, along with all documents therein referenced as well as the Group's full consolidated financial statements and the notes thereto.

An investment in the Shares is suitable only for investors who understand the risks associated with this type of investment and that, by investing in the Shares, they could lose all or part of their investment. The fact that certain negative events associated with a given risk factor did not occur in the past does not mean that the risks and uncertainties described herein should not be considered prior to making an investment decision in respect of the Shares.

If any of the following risks were to materialise, individually or together with other circumstances, they could have a material and adverse effect on Icelandair Group and/or its business, results of operations, cash flows, financial condition and/or prospects, which may cause a decline in the value and trading price of the Shares, resulting in the loss of all or part of an investment in the Shares.

Additional risks and uncertainties that do not currently exist, that are not presently considered material, or of which the Company is unaware, may also impair the business and operations of the Company. These risks and uncertainties could have a material adverse impact on the business, income, profits, assets, liquidity and share price of the Company.

The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude of their potential impact on the Company's business, results of operations, cash flows, financial condition and/or prospects. The risks mentioned herein could materialise individually or cumulatively. Any quantification of the significance of each individual risk factor for the Company would be misguiding, as the risk factors mentioned in the Share Registration Document may materialize to a greater or lesser degree.

[1] Further details on the hub-and-spoke model in Chapter 3.3 *The Route Network and the Company's Vision*.
[2] The Issuer and the Airline are operated under a single executive management and Board of Directors.

The information in this chapter is presented as of the date of the Share Registration Document, unless otherwise explicitly noted, and is subject to change, completion or amendment without notice.

1.1 Risks Related to General Macroeconomic Conditions

1.1.1 The Company's operations are highly correlated to general local as well as global economic conditions which could adversely affect its business, results of operation, liquidity, financial condition and capital resources

General macroeconomic risks such as slowing economic growth, changes in interest rates, fluctuations in exchange rates, employment levels and inflation, whether globally or locally, can adversely affect the Company's operations.

Little or slowing growth in the Company's main markets[3] may reduce impact for air travel which might affect revenues and/or the Company's strategy of positioning Iceland as the hub in its international route network. A sustained period of negative growth would likely result in diminished consumer and business confidence, rising unemployment and lower purchasing power which would have adverse impact on the profitability of the Company and its share price.

Uncertain economic and financial market conditions can affect jet fuel prices, interest rates and currency exchange rates. The Company cannot guarantee that its liquidity and access to acceptably priced financing will always be sufficient or unaffected by external macroeconomic trends or financial market volatility, whether global or domestic. This in turn might have subsequent implications for loan covenants, the Company's financing costs, fair value of assets and overall financial condition. For more detailed information on risks related to loan covenants reference is made to Chapter 1.3.10 *The Company is exposed to contractual risk regarding loan covenants i*n this Share Registration Document.

The Company is headquartered in Iceland with its international route network operated under an Icelandic Air Operator Certificate ("AOC"). The vast majority of its employees and shareholders are Icelandic and a significant portion of its operating costs are payable in ISK, most notably salaries and salary related expenses. The Company is therefore affected by the country's general economic conditions. The general rate of employment and sentiment in the local labour market, the exchange rate of the ISK and sentiment in local financial markets are among Iceland-specific issues that can affect the Company's finances, operations or share price. For more detailed coverage of risks related to labour disputes reference is made to Chapter 1.2.6 *The airline industry is vulnerable to labour disputes and strikes* in this Share Registration Document. For more detailed coverage of foreign currency and exchange rate risk reference is made to Chapter 1.3.6 *The Company is exposed to foreign currency risk* in this Share Registration Document. For more detailed coverage of risks related to liquidity reference is made to Chapter 0 *The Company is exposed to liquidity risk* in this Share Registration Document. For more detailed coverage of risks related to credit risk reference is made to Chapter 1.3.8 *The Company is exposed to credit risk* in this Share Registration Document.

[3] Looking at the Group's 2019 revenues based on the geographical location of customers North America is the largest market with a 39% share followed by Iceland (23%), West Continental Europe (15%) and Scandinavia (7%). The passenger mix for 2019 shows that 43% of passengers were so-called VIA passengers (crossing the North Atlantic through Iceland), 42% were TO passengers (incoming to Iceland) and 15% were FROM passengers (outbound from Iceland).

1.1.2 The airline industry is exposed to and affected by geopolitical conditions and sanctions

As well as macroeconomic conditions, the airline industry is sensitive to geopolitical conditions. Examples of such current tensions include disputes between Saudi Arabia, Russia and the United States with regards to oil production that exacerbated the downward price trend of oil in the spring of 2020. The COVID-19 pandemic moreover has caused governments to impose widespread travel restrictions across the world. Further details on the impact of COVID-19 can be found in Chapter 1.2.3 *The airline industry is highly vulnerable to events outside their control such as terrorist attacks, natural disasters and pandemics* in this Share Registration Document.

Geopolitical tensions can in general impact the demand of leisure and business travellers for flights, and subsequently supply of air travel to affected areas, as well as potentially impeding the Company's supply of fuel or other inputs.

The unique effects of COVID-19 notwithstanding, the Company sees disruptions in demand and supply due to geopolitical tension as a minimal risk although it cannot be entirely ruled out. Should changes or increased demands be made that are of any material importance for the Company's financial standing or operational results the Company will issue a statement to that effect.

1.2 Risks Related to The Airline and Tourism Industry

1.2.1 The airline industry is subject to fierce competition that can place downward pressure on yields

The Company faces intensive competition in all fields of its activities. The airline aspect of the Company's operations includes both scheduled[4] and charter[5] services for passengers and freight. The level of competition amongst airlines is high, and pricing decisions are heavily dependent on competition from other airlines. In general, the airline industry is susceptible to fare discounting due to low marginal costs of adding passengers to otherwise empty seats. New market entrants, especially low-cost carriers, mergers, acquisitions, consolidations, new partnerships and transparency of pricing in the air travel market could add to airline competition. Changes in competition in any of the Company's key transport markets, including the Icelandic market, could in general affect the Company's profitability.

1.2.2 The airline industry is susceptible to strong seasonality in demand making the Company more vulnerable to demand shocks or disruptions in certain parts of the year

The Company operates in an industry where demand has traditionally been much higher in the summer ("High Season") than other seasons. Although notable strides have been made in reducing seasonality in the operations in the past years, the Company's revenues in the second and third quarters nonetheless continue to be significantly higher than that of the first and fourth each year.[6] Lower demand for air travel, flight cancellations or other factors affecting aircraft utilisation would therefore have a proportionately greater impact on the Company during the High Season than during other periods. The seasonality in turnover and profitability poses greater risk

[4] Icelandair and Icelandair Cargo.
[5] Loftleiðir Icelandic.
[6] In 2019, 63% of revenues and 100% of EBITDA stemmed from Q2 and Q3 (2018:63% of revenue and 100% of EBITDA, 2017:61% of revenue and 100% of EBITDA).

for the annual financial outcome than otherwise, leaving the Company more vulnerable to disruptions to production inputs or external demand shocks. Any interruptions during the High Season could have adverse effects on the financial outcome of operations for the full financial year.

1.2.3 The airline industry is highly vulnerable to events outside their control such as terrorist attacks, natural disasters and pandemics

Terrorist attacks and armed conflicts can affect demand for airline travel. Similarly, airlines may be affected by natural disasters such as large-scale floods, earthquakes, hurricanes or volcanic eruptions that cause disruptions to flight schedules that in extreme cases can lead to prolonged suspension of certain routes and closure of airports, such was the case in the Eyjafjallajökull eruption in 2010.[7]

Outbreaks of easily communicable diseases can affect airlines such as was the case with SARS (Severe Acute Respiratory Syndrome) in 2003, the Bird flu pandemic in 2007 and 2008, the Swine flu pandemic in 2009.

At the date of this Share Registration Document, a wide-spread global pandemic of severe acute respiratory syndrome coronavirus 2 (commonly known as SARS-CoV-2) and the infectious disease COVID-19, caused by the virus, is taking place. As the virus, and the disease it causes, are relatively new, an effective cure and vaccine are yet to be developed. While COVID-19 is still spreading and the final implications of the pandemic are difficult to estimate at this stage, it is clear that it will affect the lives of a large portion of the global population and has caused and will continue to cause significant disruptions to everyday life in all societies. At this time, the pandemic has caused a state of emergency being declared in various countries, severe travel restrictions being imposed, quarantines to have been established, and a near shutdown of the operations of a multitude of institutions and companies, including airlines.[8]

The COVID-19 pandemic[9] has had and continues to have severe adverse effects on the Company. Firstly, a spread of such diseases amongst employees, as well as any quarantines affecting them or the Company's facilities, could in general significantly reduce the possibility of the Company's personnel to carry out their work. While nearly all employees have during this time luckily maintained their health the Company has had to plan and at times implement expansive restrictive measures in its daily operations in adherence to both internal as well as public policy to ensure business continuity. Among these are splitting up work teams, asking people to work from home, abandoning or severely limiting participant numbers in physical meetings, being dependent on technical solutions for group meetings and closing off parts of the Company's service outlets. These measures can be implemented at short notice in adherence to public policy at each given time. Moreover, cabin operations on the Company's flights have been adjusted to entail increased sanitation and routine disinfection of all surfaces. All on-board food and beverage services, as well as other on-board sales, have been suspended for the time being.

Secondly, fear of the virus along with widespread travel restrictions and, at times mandatory self-isolation and quarantines for any or selected passengers allowed to enter the borders of their

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[7] The eruption of Eyjafjallajökull in 2010 were volcanic events at Eyjafjallajökull in Iceland which, although relatively small for volcanic eruptions, caused disruption to air travel across western and northern Europe over an initial period of six days in April 2010.

[8] E.g. the United States have established strict travel restrictions, whereby travellers who have stayed in the European Schengen Area, including Iceland, may not enter the United States. These restrictions remain in full force at the date of this Share Registration Document.

[9] Although this chapter primarily centres on the effects of COVID-19 it can also be seen as being demonstrative of the possible effects of any such or similar viruses and pandemics. There is also the possibility that future outbreaks or viruses may behave in very different ways than COVID-19 and bring with them other or different challenges than associated with the current crisis.

chosen destinations have had a profound adverse effect on the demand for international travel, resulting in a near total revenue loss which, if prolonged, seriously threatens the Company's ability to carry out its operations and its standing as a going concern. These measures are ever changing and may be loosened or tightened according to developments in the spread of the virus. This makes planning ahead difficult possibly discouraging travel even further.

Thirdly, due to the nature of travel and airlines' operating models a large part of the Company's income is collected before it delivers its product, i.e. the customers pre-pay their flights at the time of booking, and the Company holds on to that income until the respective travel date. Due to the substantial seasonality of air travel the Company usually builds up its deferred income position during the winter and early spring (Jan – April) which decreases drastically during the High Season (June-September) when most of the booked flights are flown. Passenger rights legislation in effect in both the United States[10] and Europe[11] dictates that when an airline cancels flights, for whatever reason, the passenger's options for resolving the matter must include a full and rather prompt refund[12]. The current situation has meant that airlines have been forced to cancel thousands of flights which according to these regulations entitle passengers to full refunds of their purchased tickets should they so choose. While the airlines have the option of rebooking passengers or compensating them with vouchers for future travel in lieu of refunds there can be no guarantee that all passengers will find such a solution suitable or desirable. Their decisions will furthermore undoubtedly be influenced by the overall economic situation they find themselves in, which might have deteriorated due to the heavy impact the virus will almost surely have on the global economy. If these passenger regulations remain in effect, unchanged, with no relief granted to airlines due to the extraordinary circumstances, it could potentially mean that they would be made to refund close to all passenger income collected for scheduled travel which would gravelly impact their liquidity and solvency. On 29 April 2020, 12 member states of EU issued a statement, encouraging EU regulators to amend the passenger regulations within EU and allow temporary issuance of vouchers to preserve the EU traffic market beyond the COVID-19 pandemic. No such amendment has been proposed or made as of the date of this Share Registration Document. On the contrary, the EU Commission has stated that it believes that there is no need to change the current rules. In its March 2020 interpretative guidelines, the Commission explained that carriers and package travel organisers can offer customers vouchers in lieu of travel but reiterated that the customers have the right to refuse and opt for a cash refund or re-routing instead.[13] The Commission reiterated this position in its 13 May 2020 recommendation for vouchers.[14] The Company will continue to monitor these matters closely.

As at 30 June 2020 the total value of deferred income for sold, unused tickets collected by Icelandair amount to USD 143 million.[15] Thereof the total amount of issued vouchers was USD 67.2 million. The vouchers are generally valid for 3 years. The Company assumes that the vouchers will be redeemed in full before their expiry.

Further to the above, the wider macroeconomic effect of the COVID-19 pandemic, and any possible future outbreaks, remain to be fully seen and are difficult to assess at this stage. At the

[10] Source: https://www.transportation.gov/briefing-room/us-department-transportation-issues-enforcement-notice-clarifying-air-carrier-refund.
[11] EU Regulation no. 261/2004 establishing common rules on compensation and assistance to passengers in the event of denied boarding and of cancellation or long delay of flights.
[12] According to the U.S. Department of Transportation the deadline is seven business days from the date the refund is requested if paid by credit card and 20 business days if the passenger paid by cash or check. In Europe the passenger shall be reimbursed within seven days.
[13] Source: https://ec.europa.eu/transport/sites/transport/files/legislation/c20201830.pdf.
[14] Source: https://ec.europa.eu/info/sites/info/files/recommendation_vouchers_en.pdf.
[15] Information found in note 16 in the Condensed Consolidated Interim Financial Statements of the Company for Q2 2020.

present time it seems likely that the world will face an economic recession as a result of the virus that will inevitably negatively affect many if not all of the Company´s main markets. These affects may be exacerbated in case of a resurgence of the virus in countries or communities deemed as having recovered. A recession would in an otherwise normal setting usually negatively impact demand for international travel as unemployment levels rise and consumer confidence and spending lowers. A prolonged recession may also result in the insolvency or bankruptcy of the Company's business partners, which could affect the operations, through loss of important suppliers, as well as its financial standing through loss of outstanding claims to such counterparties. Lastly, an economic downturn causes instability in financial markets which could negatively impact the Shares and be detrimental to the cost and availability of funding.

After successfully containing the first local wave of COVID-19 infections, Iceland has again tightened restrictions following a rise in local transmissions. As of 31 July 2020, a gathering ban of groups of more than 100 people is in effect. A two-metre social distancing rule is also in effect in public spaces. Masks are mandatory in public spaces where social distancing cannot be effectively adhered to, such as in the Company's domestic flight operations.

Further, the Icelandic Government has decided to impose more comprehensive border-screening measures as of 19 August. All arriving passengers in Iceland must undergo two COVID-19 testing, one upon arrival and another 4-5 days later to minimize the risk of a false negative, causing infection to spread in the community. During this period, all arriving passengers must stay in quarantine in case of a possible infection. Arriving passengers shall bear the cost of the first testing, but the second testing is at no cost. Alternatively, arriving passengers can choose to stay in 14-day quarantine without undergoing any tests. Children born in 2005 and later are exempt from the double border-screening procedure. The Company expects production levels to drop following the introduction of stricter screening protocols at the border but it doesn't affect the Company's conservative ramp up plan described in the Company's Information Memorandum first published 18 August 2020, amended and republished 4 September 2020 , (the "IM") which is incorporated in this Prospectus by reference and accessible for electronic viewing on the following website: https://www.icelandairgroup.is/information-memorandum/.

According to information given at daily press briefings held by the Directorate of Health and the Public Safety division of the Icelandic police amendments, either loosening or tightening public policy regarding the above, are to be expected until an effective cure or vaccine has been developed.

For information on the Company's decisive measures to diminish the overall impact of the virus on its operations and cash outflow, reference is made to Chapter 4.2.1 *COVID-19 pandemic mitigation actions* in this Share Registration Document.

The aforementioned events could result in loss or limitations of availability of insurance coverage or increase in insurance premia, additional costs relating to necessary increased security measures or sanctions or restrictions being placed on flights to certain areas. All of which could translate to increased operating costs or longer or shorter-term fear of travelling that could depress the aviation and tourism industry thus adversely affecting the Company's business and financial standing.

The Company will continue to thoroughly monitor the situation and is working closely with all relevant authorities to ensure the health and wellbeing of its customers and employees. If changes occur or are implemented that would have significant added financial ramifications for the

Company, it will issue a statement to that effect, or as and if needed a supplement to this Prospectus.

1.2.4 The airline industry is subject to volatile jet fuel prices

Airline operators are highly sensitive to jet fuel prices and availability. Jet fuel can be subject to significant price volatility due to fluctuations in supply and demand and investor behaviour through speculative trading. These are influenced by factors ranging from political unrest to terrorist attacks and producer market strategies. To improve risk control relating to volatile fuel prices, the Company integrates hedging into its purchases of jet fuel using swaps and options. The Company's current risk policy requires a hedging ratio of between 40% and 60% of estimated usage 12 months forward and up to 20% of estimated usage 13-18 months forward. The Company's fuel hedging policy will be reviewed in due course, when the current extreme uncertainty subsides.

Year-to-date has seen extreme price movements and oversupply of jet fuel driven mainly by two factors; extensive grounding of the world's aircraft fleet and disputes between oil producers that have resulted in excess supply of oil. These two factors combined have resulted in a dramatic drop and fluctuations in the price of jet fuel, going from USD 656 mt at the beginning of the year 2020 to USD 220 mt on 8 April 2020.[16] At the date of this Share Registration Document the price stands at USD 297 mt. Under normal circumstances lower fuel prices would benefit the Company as it would reduce its operating costs. However, due to the demand shock and wide ranging COVID-19 related cancellations this price drop had the opposite effect due to the Company's use of hedging. Moreover, the Company's flight schedule has dramatically decreased, severely diminishing its fuel needs. As a response to this unprecedented situation the Company resolved, in July 2020, to close out half of all existing open fuel hedges, measured at mark-to-market, and roll the remaining positions forward by spreading them out over the next 24 months i.e. throughout June 2022. The new hedge positions were structured in line with the Group's expected production levels and fuel consumption at that time which have since been iterated and taken down, resulting in a relatively high hedging ratio 7-12 months forward. This action therefore presents a deviation from the approved risk policy, both in terms of ratio (less than 40% of estimated usage remains hedged in certain periods) and tenure (the Company has entered hedge positions further than 18 months into the future). Item 1 displays the Company's current actual hedging ratios and Item 2 displays the sensitivity of current open hedge positions to price changes in jet fuel world market prices.

Item 1. Jet fuel hedge ratio pre-COVID-19 and as of September 2020

	2020 actual hedging ratio as of September 2020	2020 pre-COVID-19 hedging ratio
Hedge 12 months forward	41%	42%
Hedge 13-24 months forward	21%	14%[17]

Item 2. Sensitivity of open hedge positions to changes in world market prices of jet fuel

USD ´000	Mark to market
Forward price $663,5 mt	0
Current forward market price	(~25,209)
$400 mt	(~23,935)
$300 mt	(~32,954)

[16] Source: Bloomberg.
[17] Applicable to a period 13-18 months forward from March 2020.

$200 mt	(~40,733)
$150 mt	(~45,127)
$100 mt	(~49,522)
$50 mt	(~53,916)
$0 mt	(~58,310)

The International Financial Reporting Standard IFRS 9, *Financial Instruments*, require hedge instruments to fulfil certain criteria so that the market value of open hedge positions can be allocated to equity as hedge reserves until settlement day. One of these qualifications is the requirement of effectiveness of the financial instrument against the identified exposure. The exposure has to be considered highly likely on the basis of a robust forecast of operations. Due to the COVID-19 pandemic, this exposure was revalued in Q1 2020 and materially downgraded thus rendering a large proportion of the financial instruments ineffective. The revaluation related to the Company's fuel hedges and was based on an estimation of the volume of fuel consumption covering the tenor of the open positions. The rebalancing of exposure is based on partial discontinuation. The remaining effective hedge instruments reflect 60% of the revised exposure in line with the Company's Risk Management Policy. The change in jet fuel prices seen in Q2 2020 had an effect on the fair value of the open positions and thus the effective value identified in the Equity and the ineffective portion identified in the P&L. Item 3 shows effective and ineffective fuel hedges as at 30 June 2020. The fair value changes of (the ineffective fuel hedges) were expensed in the income statement.

Item 3. Effective and ineffective fuel hedges as at 30 June 2020

USD ´000	**1-6 months**	**7-12 months**	**>13 months**	**Total**
Fuel	26,448	11,419	1,631	**39,498**
Currency	4,150	779	0	**4,929**
Interest rate swap	325	252	2,817	**3,394**
Margin Accounts	(15,174)	0	0	**(15,174)**
Total derivatives	**15,749**	**12,450**	**4,448**	**32,647**
Thereof ineffective (P&L)	(21,990)	(11,756)	(1,540)	**(47,447)**
Tax	(1,689)	(139)	(582)	**(2,410)**
Total fuel derivatives used for hedging, Equity	**7,244**	**555**	**2,326**	**10,125**

As mentioned above half of open fuel positions were unwound and settled in July 2020, i.e. post the reporting date. The book value of the unwound positions amounted to USD 18.2 million at the time of execution. Cash held in margin accounts amounting to USD 12.5 million was offset against the early settlements which were closed out at a discount resulting in one-off cash payments of USD 5 million. These transactions have been incorporated in the tenure allocation of the open positions in item 3 above. The Company has not entered any new hedge contracts, apart from the rolling forward of previous contracts, since March 2020.

At the date of this Share Registration Document the Company's open fuel hedge positions are as follows. The ratios as stated below are based on the estimated fuel usage as at this date and are subject to change. The Company's current hedge price (the forward price) USD 663.5 mt is the same for all contracts.

Item 4. Open fuel hedge position per as at the date of the Share Registration Document

Period	Volume (tonnes)	Estimated consumption (tonnes)	Hedge ratio[18]
1-6 months forward	8,749	25,992	33.7%
7-12 months forward	30,722	71,123	43.2%
13-18 months forward	23,445	83,571	28.1%
19-24 months forward	24,966	153,010	16.3%

When fuel prices are high or rising, airlines are conventionally more efficient in passing price increases on to their customers through fuel surcharges and other methods. However, global industry trends demonstrate that this has not been the case in recent quarters due to fierce competition.

1.2.5 The airline industry is burdened with a high level of fixed costs making it vulnerable to fluctuations in passenger numbers and/or fare pricing

Airline operations tend to be affected by high level of fixed costs due to the nature of provided services, i.e. the operation of expensive equipment, obligations due to leasing and investments and clauses in collective wage agreements that place certain restraints on flight crew scheduling. Fixed costs include employees involved in flight operations, service and maintenance, aircraft ownership cost and overhead costs of administration and infrastructure systems.

The high proportion of fixed costs makes unit revenues by Available Seat Kilometres ("ASK") important. Fluctuations in revenues per ASK can therefore detrimentally affect the Company's profitability particularly in the event of demand shocks such as currently caused by the COVID-19 crisis and are completely outside the scope of the Company's control.

Cost awareness and flexibility, i.e. how quickly an airline can adapt to a changed external environment, are important factors in preserving profitability. Among strategies available are modifications of route networks (moving capacity from one route to another), temporarily reducing flights (grounding planes) or retiring them altogether. Reference is made to Chapter 4.2.1 *COVID-19 pandemic mitigation actions* in this Share Registration Document for a discussion on how Icelandair is coping with the current crisis.

1.2.6 The airline industry is vulnerable to labour disputes and strikes

The airline and tourism industries are inherently labour-intensive industries. Most of the Company's employees are unionised; and represented by several unions, each of which has its own collective agreement on salaries and benefits with the Group's companies. Each union's contract comes up for renegotiation every few years, bringing with it a risk that the parties will not reach an immediate agreement; resulting in a jeopardy of Production disruptions through strikes.

In addition to relying on hired personnel, the Company relies on third parties to provide its customers with services on behalf of and in cooperation with it. Any inability of the relevant third parties to provide such services may impact the business. Strikes can materially affect the Company's operations and financial results; a worst-case scenario being a complete halt in the operations of one or more of its subsidiaries for a prolonged period. Strikes in the aviation industry are particularly taxing for airlines due to proportionately high fixed costs.

[18] Ratios are subject to high level of uncertainty and directly linked to the Company's eventual production level.

At the date of this Share Registration Document the Company has signed new or revised collective agreements with three of its flight operations unions, i.e. The Icelandic Cabin Crew Association ("FFÍ"), the Icelandic Airline Pilots Association ("FÍA") and the Union of Icelandic Aircraft Maintenance Technicians ("FVFÍ"). The agreements with the former two are effective immediately and valid until 30 September 2025 and the third will take effect on 1 January 2021 and is valid through 31 December 2025. Further details on the new union contracts can be found in the IM, pages 39-43 and Chapter 4.2.3 *New union contracts* of this Share Registration Document.

1.2.7 The airline industry is vulnerable to disruptions and interruptions in flight schedules

Delays and cancelled flights occur for various reasons and impose increased costs on airlines. Possible reasons include computer faults, accidents, labour unrest, weather conditions, delays by service providers, congestion and unexpected maintenance. These events incur not only direct added costs for operations, and possible compensation payable to passengers,[19] but also indirect costs through damage to reputations and brand names which may take a long time to repair. Successful business turnover is contingent on successful third-party service providers and an undisrupted supply chain mechanism. This includes a range of crucial suppliers, including travel agents, air traffic control, ground services, maintenance support, IT service providers, etc. Interruptions due to any of these disruptions could seriously affect sales and the profitability of the Company.

1.2.8 The airline industry is subject to environmental laws and regulations aimed at limiting the allowed emission of greenhouse gas and trading schemes related to such allowances

Government regulations on environmental protection such as targets for carbon dioxide emissions are a growing issue for the airline industry. Moreover, the industry is subject to various local restrictions around airports such as to reduce noise and pollution. This can concern opening hours of airports, availability of slots and the usage of airspace. Congestion and environmental restrictions can for example lead to delays or increase the complexity of departure and approach manoeuvres which may act to reduce productivity and increase costs.

As of January 2012, all airline carriers flying into and out of the EU had to ensure compliance with the legal requirements set forth in Directive 2003/87/EC relating to greenhouse gas emissions (the "Greenhouse Gas Directive"). The Greenhouse Gas Directive brought the airline industry into the Emission Trading Scheme ("EU ETS") whereby airlines must purchase emission units reflecting the physical carbon dioxide emission created by their consumption of jet fuel. As is the case with jet fuel prices, it is impossible to forecast the future price of emission allowances, but they might increase costs borne by the Company. The Greenhouse Gas Directive, which only applies to routes within the EU, places competitive disadvantages on airlines with a heavy European focus compared to non-European air carriers who operate a lower proportion of their flights within the EU. This is particularly the case for a company serving North-Atlantic routes with a hub-and-spoke model competing with direct flights as they are exempt from this environmental tax.

[19] Under EU Regulation No. 261/2004 establishing common rules on compensation and assistance of passengers in the event of denied boarding and of cancellation or long delay of flights. The EU Commission has issued interpretative guidelines that state that COVID-19 related flight cancellations are generally speaking exempt from the right to compensation https://ec.europa.eu/transport/sites/transport/files/legislation/c20201830.pdf.

Emission permits are mainly purchased with spot and forward contracts, and carbon exposure is subject to the same scrutiny and risk management as jet fuel. Compared to the magnitude of fuel cost volatility the consequences of the EU ETS compliance are not as economically important, but still constitute a risk for the Company and can consequently adversely affect the Company's earnings. The total volume of emission permits for compliance year 2019 were approximately 579 kt.[20]

The Company is exposed to carbon price risk. In terms of volume, carbon emission is a fixed proportion of the fuel consumption, but the price volatility of carbon has been greater although the consequential cash flow has been trivial compared to that of fuel costs. The price of carbon units stabilized in 2019 after tripling in 2018. The Company submits its estimated carbon emission for each year to the European Commission for Climate Action. In 2020 the original estimate was 580,000 units of which 194,000 are covered by free allocation from the ETS. The difference is then purchased in the market making it vulnerable to price developments. The end of year 2019 price was EUR 24,62 mt. The Company's actual carbon emission in 2020 will of course be heavily impacted by COVID-19 lessening the risk faced by emission price changes.

Sustainable business growth requires the Company to address its environmental impact, both globally and locally. As part of this effort, Icelandair Group participates in the work of various environmental working groups, such as with IATA and Airlines for Europe (A4E). A4E's goal is to ensure the sustainable growth of aviation and contribute positively to the socioeconomic development of European nations. Icelandair is committed to implementing an emission mitigation scheme in line with CORSIA,[21] where the aim is to address annual increase in total CO2 emissions, and thus contributing to the industry's aspiration to carbon neutral growth from 2020.

1.2.9 The airline industry is reliant on airport and air traffic security which is upheld by levying costs on airlines that may not always be passed onto passengers

In the long-term airport security measures have increased internationally. Security surveillance has generally been stepped up, with any suspicious activity being treated with greater intensity than before.[22] Airline services have therefore occasionally been disrupted on temporary or long-term grounds and bear the risk of being similarly affected in the future.

Security measures are essentially paid by airlines through various airport, transit and landing fees. There is a risk of security measures being increased that might result in increased costs or hikes in fees payable to airports and air traffic authorities. Any inability to pass such increased costs onto customers could have an adverse effect on the Company's business, financial condition and results of operations.

1.2.10 The airline industry is subject to wide-ranging taxes, charges, license and aviation fees that may impact demand for air travel

The airline and tourism industries are subject to a plethora of fees and charges as well as an ever-changing tax environment, which can have a direct effect on ticket pricing and demand. Examples of airline specific costs are take-off, transit and landing fees, noise, navigation and emission charges in addition to value added tax.

[20] Kt stands for kilo tonne.
[21] Carbon Offsetting and Reduction Scheme for International Aviation developed by the International Civil Aviation Organization.
[22] An incident at London's Gatwick airport in December 2018, where numerous drones where used to disrupt air traffic during a very busy travel time, resulting in cancelation and delays of multiple flights, illustrates the impact that such security measures can have on the Group's business.

The Company is subject to risk regarding any added or new taxes, fees or charges to the extent these cannot be passed unto passengers.

1.2.11 The airline industry is exposed to a risk of significant losses from aviation accidents, including flight incidents, aircraft groundings or malfunctions and other disasters

As is the case with any airline operator the Company is exposed to significant potential loss through either flight incidents, malfunctions or other accidents. Costs may involve the repair or replacement of damaged or lost aircraft, consequent temporary or permanent loss of services and claims from passengers. Despite having insurance against this type of incident the Company cannot guarantee that insurance coverage and policy pay-outs would in every case fully cover the resulting losses. Moreover, should an aircraft from the Company, or of the same type as used by the Company be involved in an accident, it might result in a damaged reputation or the Company's aircraft not being seen as reliable, which in turn could decrease demand for the Company's services. Materialisation of any of these risks may have a material adverse effect on the Company's business, financial condition, results of operations and future prospects.

As a result of two fatal incidents involving the Boeing 737 MAX passenger jets, aviation authorities worldwide grounded the B737 MAX in March 2019. It was later announced that a Joint Authorities Technical Review ("JATR"), would commence, with participation from China, the European Aviation Safety Agency, Canada, Brazil, Australia, Japan, Indonesia, Singapore and the United Arab Emirates. Although the Federal Aviation Administration and Boeing completed certification test flights on the B737 MAX, a key milestone toward the plane's return to service, as of the date of this Share Registration Document, it is unknown, when the aircraft might be certified again. The Company will update the market on this important issue through official announcements as and when more information becomes available.

At the date of this Share Registration Document six of the Airline's fleet of 34 passenger aircraft are B737 MAX. Further information regarding the B737 MAX and the Company's fleet can be found in Chapter 3.3.3 *The fleet* of this Share Registration Document.

1.2.12 The airline industry is exposed to risk of insurance not being adequate, becoming too expensive or hard to come by

The Company holds insurance for all of the Company's major assets and employees, including Directors' and Officers' liability insurance, to reduce the risk of major economic impact in case of incidents. The insurance covers a range of risks, among them potential damage to the Company's aircraft fleet, spare parts and other technical equipment as well as liability exposure associated with airline operations.

If the Company's insurance coverage shows to be inadequate to cover losses the Company could be obliged to bear substantial costs if (i) its insurance policies do not cover a specific claim; (ii) the amounts insured under such policies are insufficient; or (iii) an insurer is not able to pay the insured amounts. In addition, the damage may not be limited to damages eligible for compensation but could include harm done to the Company's reputation.

Terrorist attacks, acts of sabotage and other incidents, especially if they were to be directed against air traffic, could result in insurance coverage for aviation risks becoming more expensive and/or certain risks becoming uninsurable.

The Company insures its aircraft fleet to the extent it deems reasonable and practical. This practice is in accordance with what other major airlines operating in the sector are doing as well as in accordance with applicable regulations regarding indemnity payments. The Company considers that its insurance coverage is reasonable to carry out its current commercial activities.

1.2.13 The airline industry is exposed to risk of holdbacks from credit card acquirers

The Company has agreements with acquirers that process customer credit card transactions for the sale of air travel and other services. Acquirers bear financial risk associated with tickets purchased for travel because, although the acquirer generally forwards the cash related to the purchase to the Company, according to settlement agreements soon after the purchase is completed, the air travel generally occurs after that time, and the acquirer may have liability if the Company does not ultimately provide the air travel. The Company's agreements allow acquirers, under certain conditions, to hold an amount of cash (referred to as a "holdback") equal to a portion of advance ticket sales that have been processed by the acquirer, but for which the Company has not yet provided the air travel. These holdback requirements can, under certain pre-defined conditions such as material adverse changes in financial condition be modified at the discretion of the acquirers, up to the estimated liability for future air travel processed by the respective acquirer. The amount that the acquirer may withhold also varies as a result of changes in financial risk due to seasonal fluctuations in ticket volume. Additional holdback requirements will reduce the Company's liquidity in the form of unrestricted cash and short-term investments by the amount of the holdbacks.

1.3 Risks Related to Icelandair Group's Operations

1.3.1 The Company is dependent on airport access and certain preferred time slots to optimise the execution of its chosen business model

The Company operates an international route network based on a hub-and-spoke model. This makes access to airports in its defined geographical market, including in its hub Keflavík Airport, vital to maintain and open up new gateways to large and competitive markets. At some airports, an air carrier needs landing and take-off authorisations (time slots) before being able to introduce new services or expand its existing services. If the Company is not able to secure and retain slots, it could be restrained from competing in valuable markets. Generally, access to airports is vital to minimise the likelihood of delays, which can negatively affect the Company's profitability. As shown on page 21 of the IM the Company holds valuable slots at strategic airports that are difficult to procure and instrumental for a hub business model.

Occasionally airlines must maintain flights to certain destinations at regular intervals to fulfil potential landing and take-off requirements in order to retain their slots. Due to the crisis created by COVID-19, airlines such as the Company, have been granted a full airport slot waiver for the summer 2020 and will therefore hold their airport slot history for flights in summer 2021, at respective airports. Similar slot waiver extension has been requested by all stakeholders for next winter 2020/2021 by IATA, A4E, airlines, airport and slot coordinators to the EU commission. The waiver extension is expected to be granted in Sept/Oct 2020 in line with the current summer airport slot waiver that is in place around the world.

1.3.2 The Company is exposed to risk regarding information technology and other systems

The Company's operations are dependent on IT and other systems. Failure or disruption to IT or management systems, whether internal or external, could affect the Company's ability to carry out its business operations and services to its customers. Many factors that can cause such systems to fail are outside the Company's control. Icelandair Group makes every effort to minimise the risk of disruption with the aim of securing the Company's business continuity. Among measures that the Company has in place are documented procedures regarding access to information and other systems, the back-up and storing of data, remote access via virtual private network clients and the disposal of confidential or otherwise sensitive material. Virus protection for all computers and servers are centrally managed, internet connectivity is secured by firewalls and web security gateways, and all services open for external usage are secured by an application firewall. Key servers are hosted with Verne Global in specialised on-site server rooms equipped with cooling and fire-extinguishing systems, security and back-up power generators. Other operating systems are hosted with the Company or third parties with expertise in the respective system. All critical servers and systems are monitored and routinely backed up. Data is subject to continuous monitoring with defined parameters for flagging deviations to ensure timely interventions in case of failure or break-down. Applications and data servers, as well as the network infrastructure, are hosted, operated, and maintained by Verne Global and Origo. Monitoring of daily incidents and work processes is done by Origo and Icelandair's Information Technology division.

A systems risk assessment is performed annually on key service and information systems. Further internal audits on inter alia access clearance levels and the implementation of procedural rules, are performed.

1.3.3 The Company's profitability and financial condition are affected by the success of its strategy and its ability to accurately forecast market trends

The markets in which the Company competes are subject to constant change, the direction and intensity of which depend on many factors. Thus, the Company's future status, market position, income and profit depend on its ability to design and implement a successful strategy as well as on the conditions and trends of the market. This may include identifying and developing suitable opportunities, e.g. the Company's route network; choosing the correct business partners and customers, negotiating favourable contract terms; acquiring properties or businesses and successfully integrate them into operations; arranging financing, when needed; and complying with legal regulations. There can be no assurance that the Company will succeed in adapting to market conditions, making correct choices for its business strategy or accurately forecast the financial impact of prevailing market trends. Failure to do any of the aforementioned may negatively impact the Company's profitability, operations and prospects. The Company could further suffer losses from demand shocks associated with counterparties going bankrupt, such as in the Group's leasing and maintenance business, or if important export products transported by the Group's cargo operations were to contract significantly such as due to infections or disease.

1.3.4 The success of the Company's business strategy is dependent on the capabilities and know-how of key personnel

To secure necessary competence to carry out its business strategy the Company is reliant on key members of management and other employees. There is no assurance that these employees will stay with Icelandair Group. To reduce the risk of losing key employees some measures have been implemented, including an incentive-based salary structure that is based on the financial results of the Company as well as the respective employee's performance. Furthermore, the Company actively manages its information systems to keep know-how within the Company. The employment terms and remuneration of members of the Executive Committee (see details in Chapter 6.2. *Executive Committee* in this Share Registration Document) are in line with Icelandic market practice for such positions. Remuneration consists of a monthly base salary along with an incentive-based annual payment that can at most equal three months' base salary as stipulated in the Company's remuneration policy which is reviewed annually and approved at a shareholders' meeting.[23] Notice periods for these executives range from 6-12 months upon termination of employment by the Company. Employment contracts with certain key employees contain non-compete clauses, in effect ranging from 12-24 months after their resignation/redundancy.

1.3.5 The Company is exposed to general market risk

The Company is exposed to general market risk, i.e. fluctuations in market prices such as fuel prices, exchange rates, interest rates and carbon emission prices that can materially impact the Company's profitability. The Company aims to reduce any such risk as much as possible by issuing and maintaining a policy of financial risk management and operating a risk management committee to that end. The policy identifies various methods and sets limits to their use within its framework, e.g. the way that market price fluctuations can also be controlled through surcharges, counterparty risk shifting, economizing, production supply and hedging. Each subsidiary is expected to use the abovementioned tools to reduce market risk exposure.

1.3.6 The Company is exposed to foreign currency risk

The Company's functional currency is U.S. dollars. The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in other currencies. The Company seeks to reduce its foreign exchange exposure arising from transactions in various currencies through internal foreign exchange trading. Any residual mismatch is dealt with by trading spot and forwards with external parties. The largest mismatch is in ISK where cash inflows fall short of outflows due to various net cost related items such as salaries and salary related costs. This shortage is financed by a surplus of foreign currencies, most importantly EUR and Scandinavian currencies. The Company follows a policy of hedging 50-80% of a rolling 9-12-month currency exposure with spot, forward contracts and options. In addition to the cash flow, risk exposure of this kind affects the balance sheet. The Company's Risk Committee monitors the net currency mismatch and mitigates the exposure through short-term management of assets, loans and liabilities within the scope of the cash flow objectives. In the year 2019 the breakdown of revenues and expenses by currency was as follows:

[23] Reference is made to note 37 in the Group's annual financial statements for the 2019 fiscal year for information on remuneration of Board and Executive Committee members.

Item 5. Breakdown of revenue and expenses in 2019 by currency

	ISK	USD	EUR	DKK	SEK	NOK	GBP	CAD
Revenue	22%	47%	18%	2%	2%	2%	4%	5%
Expenses	39%	45%	13%	1%	0.1%	0.2%	2%	1%

1.3.7 The Company is exposed to liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company´s internal liquidity policy aims to maintain the level of its cash and cash equivalents and other highly marketable debt instruments at an amount corresponding to the average of three months' fixed operating cost, with USD 60 million set as the minimum.

The Company's liquidity need is closely aligned with its production levels, i.e. operating cost. As detailed in the Company's IM, the Company expects production to remain low throughout Q1 2021. The conservative ramp-up approach discussed in the IM demonstrates Icelandair's anticipated liquidity position throughout 2024. As shown on page 51 of the IM the share offering forms an essential part of securing the Company's liquidity through the cycle.

As part of its financial restructuring the Company has renegotiated the terms of its revolving credit facilities with two local banks, the total amount of the undrawn credit lines is USD 52 million. The availability of these lines is subject to a successful share offering. The Company has further secured a credit facility in the amount of USD 120 million that will be 90% guaranteed by the Icelandic Government. For further details on the agreed terms and conditions of the government guaranteed facility reference is made to Chapter 4.2.2 *Steps taken to secure long-term capital structure* in this Share Registration Document.

The Company monitors its cash flow requirements by using a rolling forecast and the liquidity management is based on projected cash flow in different currencies.

1.3.8 The Company is exposed to credit risk

The Company is exposed to credit risk, i.e. the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

Credit risk is linked to trade receivables, investment in debt securities, bank deposits and agreements with financial institutions related to hedging. The relative spread of trade receivables across counterparties is also crucial for credit risk exposure. The risk involved is directly related to the fulfilment of outstanding obligations by the Company's counterparties. The Company is aware of potential losses relating to credit risk exposure and chooses its counterparties based on business experience and acceptable credit ratings.

The Company establishes an allowance for impairment that represents the estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Item 6. Maximum exposure to credit risk for trade and receivables at year-end 2019.

USD '000	***30 December 2019***
Credit cards	7,045
Trade receivables	62,236
	69,281
Prepayments on aircraft purchases	16,268
Lease receivables	6,598
Other receivables	32,732
TOTAL	124,879

1.3.9 The Company is exposed to terms and services of its business partners

The Company's operations are dependent upon its ability to secure goods and services from several third-party suppliers. The Company has entered into agreements with third-party suppliers to provide services such as passenger handling, aircraft handling, baggage service, ticket counter space, catering, aircraft cleaning, de-icing, aircraft consumables and rotables (spare parts), fuel, navigation, critical software and ticket sales and distribution. Icelandair's ticket sales in particular are in certain aspects subject to access to various global distribution systems. Should Icelandair be excluded from important distribution platforms or if these platforms were to cease to exist it could negatively affect the Company's revenue generation.

Interruption in the provision of goods or services from any of these suppliers or inability to renew these agreements or renegotiate contracts with other providers at comparable prices could have various negative consequences for the Company, such as increased costs and inability to deliver satisfactory services to its customers. Such interruptions may arise as a result of a wide range of causes, many of which are beyond the Company's control. Similarly, the efficiency, timeliness and quality of contract performance by third-party providers are largely beyond the Company's direct control and, if these are inadequate, the reputation and performance of the Company could be materially and adversely affected. Materialization of any of the above risks may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

1.3.10 The Company is exposed to contractual risk regarding loan covenants

The Company is contractually bound to honour various covenants in loan and leasing agreements. Should the Company become unable to fulfil the relevant covenants, or for some reason discontinue to do so, the lessors or lenders may become entitled to rescind or accelerate these agreements, which would have adverse financial consequences for the Company. These agreements generally include cross-default clauses that might exacerbate the situation should the Company default on any one of such agreements.

As of 30 June 2020, the Company was in breach of financial covenants in its long-term loan agreements. The loans in question amounted to USD 153.2 million in total and are due to this classified as short term even though they do not mature until the year 2024. Following deferral agreements signed in Q3 2020, the Company has negotiated new financial covenants with its lenders that are aligned with the Company's projected financials during the deferral period.

The new covenants are part of the financial restructuring of the Company and are as such subject to a successful share offering. Further information regarding the covenants and the overall financial restructuring of the Company can be found in Chapter 4.2.2 *Steps taken to secure long-term capital structure* in this Share Registration Document

1.4 Risks Related to Legal and Regulatory Framework

1.4.1 Aviation regulations

Air transportation is heavily regulated. AOCs for Icelandic carriers are granted by the Icelandic Transport Authority ("ITA") and have been issued to the relevant subsidiaries of the Company, authorising them to conduct their airline operations. Among general requirements to obtain an AOC are sufficiently experienced personnel; having aircraft suitable for the type of operations requested; a quality assurance system to ensure that all regulations are followed and proof that the operator has sufficient funds to run the operation.

There is no guarantee that the Company will be issued such certificates in the future. Occasionally, the Federal Aviation Administration ("FAA") and its European counterparts issue directives and other regulations relating to the maintenance of aircraft that may result in significant costs for the Company. There is no guarantee that the Company will be compensated for this through higher fare prices, making it likely that the Company would be adversely affected.

The Company's operations are subject to Icelandic and EEA competition law and has been considered to have a dominant position on numerous markets for passenger and cargo flights to and from Iceland. If the Company were to be found in breach of the applicable competition laws, it could result in significant fines and other penalties. Actions taken by the Competition Authority may include any measures needed to bring an end to violations of the provisions of this Act or to respond to actions of public entities which may be detrimental to competition. The Competition Authority may take action to both change behaviour and structure in proportion to the infringement committed and as necessary to bring such infringement effectively to an end. However, structural remedies may only be imposed if it is shown that no effective behavioural remedy exists or if an equally effective behavioural remedy will be more burdensome for the party in question than a structural remedy. The Company's operating ability is subject to air services agreements between Iceland and respective third countries. These agreements are periodically subject to renegotiation. Changes in aviation policies of either party to such an agreement could result in their termination and adversely affect the Company's operations. Individual airline regulators, including the regulator in Iceland, may impose restrictions and requirements that would impact the Company's profitability. Icelandic law limits non-EEA ownership of the airlines of its member states to 49% and the airlines must be headquartered in an EEA country.

The EFTA Surveillance Authority ("ESA") has approved state aid in the form of a government guarantee for a credit facility provided to the Company. Competitors of the airlines receiving similar state aid measures within the EEA area might claim that the guarantee distorts competition and the Icelandic Government could become subject to such claims. Although it would be an unlikely result that the guarantee would be considered illegal state aid since it is has already been approved by ESA, it could result in the Company being required to repay any form of alleged state aid received and loose access to the credit facility.

1.4.2 Securities Regulation

The Shares are traded on Nasdaq Iceland's Stock Exchange. The Company is therefore subject to the Icelandic Securities Transactions Act No. 108/2007 (the "Securities Transactions Act") and subsequent regulations as well as Nasdaq Iceland's Rules for Issuers of Financial Instruments, dated 1 May 2020 ("Rules of Exchange"). Violation of these provisions, whether intended or unintentional, may have adverse financial impact on the Company. Serious breaches may result in penalties and Nasdaq Iceland halting trading in the Shares.

1.4.3 Litigation

Given the Company's size and the scope of its operations, it can easily find itself involved in some form of litigation at any given time which might adversely affect its financial position. At the time of the publishing of this Share Registration Document, the Company is involved in few legal disputes, none of which are of financial significance.

The bankruptcy estate of Wow Air has sued the Company and claimed compensation due to alleged predatory pricing in 2012-2016. The case is now on the District Court of Reykjavík's docket with a court date pending. A result is not expected until 2021.

A former employee has initiated litigation regarding bodily injury due to alleged lack of air quality within Icelandair's aircraft and more employees have made similar claims. A date is yet to be set for court proceedings.

The Company has been notified that The Icelandic Confederation of Labour (Icelandic: *Alþýðusamband Íslands*) intends to initiate labour court proceedings due to the alleged unlawful termination of employment of cabin crew members. However, no formal claim has been made and the terminations in question have been withdrawn.

At the date of this Share Registration Document the Company is not party to any other governmental, legal or arbitrational proceedings. Further, the Company is not aware of any other such proceedings being pending or threatened during the period covering the previous 12 months which may have or have in the recent past had significant effect on the Company and/or the Company's financial position or profitability.

1.4.4 Data protection

The Company collects and retains personal information received from customers and is therefore subject to the EU's General Data Protection Regulation (EU) 2016/679 ("GDPR") aimed at protecting personal data held by businesses and other organizations. These requirements include but are not limited to implementing certain policies and processes, developing an effective internal data protection management system and appointing a data protection officer. Should companies be in found non-compliant to the GDPR regulators can, determined by the level of the infringement, levy fines of up to 4% of the company's annual worldwide turnover.

The Executive Committee considers the Company to be GDPR compliant.

02 NOTICE TO INVESTORS

This Share Registration Document forms a part of Icelandair Group's prospectus, dated 8 September 2020, (the "Prospectus") which has been prepared in connection with an offering of a minimum of 20,000,000,000 new Shares, with an authorization to increase by as much as 3,000,000,000 shares for a total size of up to 23,000,000,000 shares in case of oversubscription (the "New Shares") in Icelandair Group and an application for their admittance to trading on the regulated market of Nasdaq Iceland as described herein. In addition, it shall be noted that warrants will be allocated to investors who are allocated New Shares in the Offering (the "Warrants"), amounting to 25% of the nominal value of the total shares issued as a result of the share offering (the "Offering"). Further information on the Warrants can be found in Chapter 5.12 *The Warrants* in the Company's Securities Note dated 8 September 2020.

The Prospectus shall be valid for 12 months post publication. For a period of ten years from the date of issue of this Share Registration Document, this Prospectus shall be available for electronic viewing on the Company's corporate website: https://www.Icelandairgroup.is/investors/.

For the definitions of terms used throughout this Share Registration Document, see Chapter 2.2 *Definitions and References*.

The Prospectus has been prepared to provide information about Icelandair Group, its business operations and financial standing and has been drawn up as part of a simplified prospectus in accordance with Article 14 of Regulation (EU) 2017/1129 of the European Parliament and of the Council (the "Prospectus Regulation"). The level of disclosure complies with Annexes 3 (registration document for secondary issuances of equity securities) and 12 (Securities note for secondary issuances of equity securities or of units issued by collective investment undertakings of the closed-end type) to EC Commission Regulation (EU) 2019/980 of 14 March 2019 supplementing the Prospectus Regulation. The Prospectus Regulation has been implemented into Icelandic law through the Act on Prospectus for Public Offering or Admission to Trading on a Regulated Market No. 14/2020. The Prospectus further complies with the Rules of Exchange.

The Prospectus is published electronically at the Company's website, https://www.icelandairgroup.is/investors/reports-and-presentations/prospectus/ and consists of three separate documents; a Summary, a Securities Note and this Share Registration Document, all dated 8 September 2020. Printed copies can be ordered, free of charge, through iris@icelandairgroup.is for up to ten years post publication. The Prospectus has been prepared solely in the English language; however, an Icelandic translation of the Summary has been prepared and made available to investors. The Icelandic language version of the Summary is an unofficial translation of the English original and in case of any discrepancies the English version shall prevail.

The Financial Supervisory Authority of the Central Bank of Iceland, ("FSA") has scrutinised and approved the Prospectus on 8 September 2020. FSA is a competent authority under the Prospective Regulation. The approval and registration of the FSA does not imply that the FSA has controlled the accuracy or completeness of the included information and gives no guarantee to that effect. Furthermore, such approval of the FSA shall not be considered as an endorsement to the Issuer that is the subject of the Prospectus. The FSA only approves the

Prospectus as meeting the standard of completeness, comprehensibility and consistency imposed by the Prospectus Regulation.

The distribution of the Prospectus in certain jurisdictions may be restricted by law. The Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase any of the Shares in any jurisdiction in which that would be considered unlawful. Accordingly, neither the Prospectus nor any advertisement or any other material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. The Company requires persons in possession of the Prospectus to inform and observe themselves about any such restrictions and behave accordingly.

All sections of the Prospectus should be read in conjunction and as a whole. Special attention is drawn to the importance of investors reading and fully understanding the associated risks of investing in the Shares by familiarising themselves with the contents of Chapter 01 *Risk Factors* in both the Securities Note and Share Registration Document. In making an investment decision, prospective investors must rely on their own examination, and analysis of Icelandair Group including the merits and risks involved. Investors are reminded that shares are risky investments that are based on expectations, not promises. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a subscription to the New Shares and the Offering. Neither the Company as the Issuer nor Íslandsbanki hf. ("Íslandsbanki") and Landsbankinn hf. ("Landsbankinn") as the Co-Managers have made or should be seen as making any promise of positive future operational results or an acceptable return on investment. The FSA has ruled that the Warrants are to be classified as complex financial instruments as set out in the Icelandic Securities Transactions Act No. 108/2007 and MiFID.[24] Therefore the Co-Managers require all investors to provide information on their knowledge and experience of securities investments relevant to the Warrants. This is to determine whether the Warrants are appropriate for the respective investor, ascertaining if the investor has the necessary experience and knowledge needed to understand the risks involved in relation to receiving and trading the Warrants. The assessment is conducted via an investor questionnaire that forms a part of the subscription process in the Subscription System. The questionnaire must be completed by both individuals and legal entities. For detailed information on the Warrants see Chapter 5.12 *The Warrants* in the Securities Note dated 8 September 2020.

Information in the Prospectus is based on circumstances and facts on the date it is signed, unless otherwise noticed. The Issuer has furnished the information in the Prospectus to provide a presentation of Icelandair Group and to inform prospective investors about the Company and the Shares. Unless otherwise explicitly stated, the source of information included in the Prospectus is the Issuer. If significant new information, material mistakes or inaccuracy relating to information in the Prospectus, which could affect the assessment of the Shares, is discovered between the time the Prospectus is approved by the FSA, as per Article 5 of the Act on Prospectus for Public Offering or Admission to Trading on a Regulated Market No. 14/2020, and the time when the Shares are admitted to trading, a supplement to the Prospectus shall be prepared containing the changes and/or new information in question in accordance with Article 23 of the Prospectus Regulation. Such a supplement shall be approved and published in the same manner as the original prospectus, in a maximum of five working

[24] MiFID stands for Markets in Financial Instruments Directive No. 2014/65/EC.

days. The Summary and any translation thereof shall also be supplemented as relevant. Investors who have agreed to purchase or subscribe to the Shares prior to the supplement being published shall have the right to withdraw their subscriptions within two working days following the publication of the supplement in accordance with Article 23 of the Prospectus Regulation.

Only the Company is entitled to provide information about conditions described in this Share Registration Document. Information supplied by any other person is of no relevance in relation to the Share Registration Document and must not be relied upon. Investors are encouraged to stay informed on all material either disclosed by or relevant to the Issuer.

This Share Registration Document is neither an offer to sell nor a request to buy Shares issued by the Issuer. Neither the delivery of the Share Registration Document nor any sale made hereunder shall under any circumstances be taken to mean that there has been no change in the Company's affairs or that the information set forth in the Share Registration Document is correct as of any date after the date hereof.

This Prospectus, the Subscription System and the terms and conditions of the Offering shall be governed by and construed in accordance with Icelandic law. Any dispute arising out of, or in connection with, this Prospectus, the Subscription System or the Offering shall be subject to the exclusive jurisdiction of the courts of Iceland, with the District Court of Reykjavík (Ice. Héraðsdómur Reykjavíkur) as the venue. Unless otherwise stated, references to any laws, acts or regulations are references to acts passed by the Icelandic parliament and regulations issued by Icelandic governmental agencies unless otherwise clear from the context.

The Prospectus includes "forward-looking statements." These statements may not be based on historical facts but are statements about future expectations. When used in this release, the words "aims", "anticipates", "assumes", "believes", "could", "estimates", "expects", "intends", "may", "plans", "should", "will", "would" and similar expressions as they relate to the Company and the transaction identify certain of these forward-looking statements. Other forward -looking statements can be identified in the context in which the statements are made. These forward-looking statements are based on present plans, estimates, projections and expectations and are not guarantees of future performance. They are based on certain expectations, which, even though they seem to be reasonable at present, may turn out to be incorrect. Such forward-looking statements are based on assumptions and are subject to various risks and uncertainties. Investors should not rely on these forward-looking statements. Numerous factors may cause the actual results of operations or financial condition of the Company to differ materially from those expressed or implied in the forward-looking statements. The Company or any of its affiliates, Co-Managers, Advisors, representatives or any other person undertakes no obligation to review, confirm or to publicly release any revisions to any forward-looking statements to reflect events that occur or circumstances that arise following the release date of this Prospectus.

2.1 Potential Conflict of Interest

Investors are advised of the following interests Íslandsbanki hf., Landsbankinn hf., and Kvika banki hf., have regarding Icelandair Group.

Íslandsbanki

Íslandsbanki's Corporate Finance division was retained by the Company to oversee the process of having the New Shares admitted to trading on Nasdaq Iceland's regulated market. Íslandsbanki accepts a fee for their services to the Company, which inter alia include the compilation of the Prospectus. Íslandsbanki's Corporate Banking division is a lender to Icelandair Group and provides general banking services to the Company. Íslandsbanki's FX Sales division provides foreign exchange trading services to Icelandair Group. At close of business on 7 September 2020 Íslandsbanki holds a total of 4,000 Shares in the Issuer. Íslandsbanki acts as a market maker for the Company as further disclosed in Chapter 4.2 *Market Making* in the Company's the Securities Note. Moreover, Íslandsbanki has entered into an Underwriting Agreement in relation to the Offering as further disclosed in Chapter 5.13 *The Underwriting* in the Company's Securities Note.

In accordance with Article 8 of the Securities Transactions Act, Íslandsbanki has in place provisions for the treatment of potential conflicts of interest. Investors are advised to acquaint themselves with a summary of the policy which can be found on the bank's website, https://cdn.islandsbanki.is/image/upload/v1/documents/Excerpt_from_the_Conflicts_of_Interest_Policy.pdf.

Landsbankinn

Landsbankinn´s Corporate Finance division was retained by the Company to oversee the Offering, the process of issuing the New Shares and their admittance to trading on Nasdaq Iceland's regulated market. Landsbankinn accepts a fee for its service to the Company. At close of business on 7 September 2020 Landsbankinn holds 19,396,108 Shares in the Issuer. Landsbankinn´s Corporate Banking division is a lender to the Company and provides it with general banking services. Moreover, Landsbankinn has entered into an Underwriting Agreement in relation to the Offering as further disclosed in Chapter 5.13 *The Underwriting* in the Company's Securities Note.

Landsbankinn has established a Conflict of Interest Policy to treat conflict of interest. The aim of the policy is to ensure coordinated handling of conflicts of interest and effective organisational and managerial processes to control any conflicts of interest that may arise.

Investors are advised to acquaint themselves with a summary of the policy which can be found on the bank´s website; https://www.landsbankinn.com/Uploads/Documents/UmLandsbankann/MiFID/1226-04_Summary_of_Landsbankinns_Conflicts_of_Interest_Policy.pdf.

Kvika banki

Kvika banki was retained by the Company to assist the Company in relation to the Offering. Kvika does not accept any fees for its services to the Company.

Kvika does not hold any Shares in the Issuer. Kvika´s Banking division does not provide any banking services to the Company. Kvika´s FX Sales division does however provide some foreign exchange trading services to the Company. Kvika has in place provisions for the treatment of potential conflicts of interest which can be found on the bank´s website, https://www.kvika.is/asset/2558/reglur-um-radstafanir-gegnhagsmunaarekstrum.pdf.

Investors are advised to further acquaint themselves of the listed potential conflicts involving members of the Board of Directors of Icelandair Group. See Chapter 6.3 *Statements and potential conflicts of interest* in this Share Registration Document for details.

2.2 Definitions and References

In this Share Registration Document, the below shall be construed to have the following meaning unless otherwise explicitly stated or clear from context.

Airline, the, Icelandair	is a reference to Icelandair ehf., ID No. 631205-1780, Reykjavíkurflugvelli, 101 Reykjavík, Iceland
Airlines for Europe	is a reference to an airline association in the EU
ACMI	is a reference to a type of aircraft lease agreement that includes crew, maintenance and insurance, commonly also referred to as a wet lease
AOC	is a reference to Air Operator's Certificate
Articles of Association, the	is a reference to the Company's Articles of Association, dated 26 May 2020
Production, ASK	is a reference to Available Seat Kilometres
B737 MAX	is a reference to aircraft models Boeing 737 MAX8 and MAX9
BOC Aviation	is a reference to global aircraft operating leasing company
Board of Directors, the	is a reference to the Board of Directors of the Company The individuals detailed in Chapter 6.1 *Members of the Board of Directors* in this Share Registration Document
CAPEX	is a reference to Capital Expenditure
Co-Managers, the	is a reference to Íslandsbanki hf., Corporate Finance division, ID No. 491008-0160, Hagasmári 3, 201 Kópavogur, Iceland and a reference to Landsbankinn hf., ID No. 471008-0280, Austurstræti 11, 101 Reykjavík, Iceland
Company, the, Issuer, the and Icelandair Group	is a reference to Icelandair Group hf. ID No. 631205-1780, Reykjavíkurflugvöllur, 101 Reykjavík, Iceland
CSR	is a reference to Corporate Social Responsibility
DKK	is a reference to Danish Krona, the legal tender of Denmark
EASA	is a reference to European Aviation Safety Agency
EBIT	is a reference to Earnings Before Interest and Tax
EBITDA	is a reference to Earnings Before Interest, Taxes, Depreciation and Amortization
EBITDAR	is a reference to Earnings Before Interest, Taxes, Depreciation, Amortization and rent cost
EEA	is a reference to the European Economic Area, whereby Iceland, Norway and Liechtenstein gain access to the EU's single market on the basis that they adopt most EU legislation concerning the single market
EU	is a reference to the European Union

EUR	is a reference to the Euro, the legal tender of the EU
EUA	is a reference to European Emission Allowances
Executive Committee, the	is a reference to the individuals detailed in Chapter 6.2 *Executive Committee* in this Share Registration Document
FAA	is a reference to the Federal Aviation Administration, a United States' government agency tasked with managing the country's aerospace and national airport system
GDP	is a reference to Gross Domestic Product
GDPR	is a reference to the EU's General Data Protection Regulation
GRI	is a reference to the Global Reporting Initiative, an international independent standard organization that promotes economic, environmental and social sustainability
IATA	is a reference to the International Air Transport Association, a trade association for the world's airlines
IFRS	is a reference to International Financial Reporting Standards as approved by the EU according to Directive 1606/2002
ISAVIA	is a reference to ISAVIA ohf., ID No. 550210-0370, Reykjavíkurflugvelli, 101 Reykjavík, Iceland. ISAVIA handles the operation and development of all airports in Iceland and, furthermore, manages air traffic in the Icelandic control area.
Information Memorandum, the	is reference to the Company's Information Memorandum, first published 18 August 2020, amended and republished 4 September 2020
ISK	is a reference to Icelandic Krona, the legal tender of Iceland
ISO	is a reference to the International Organization for Standardization which is an independent, non-governmental international organization that develops and publishes international standards
ITA	is a reference to the Icelandic Transport Authority, ID No. 540513-1040, Ármúli 2, 108 Reykjavík, Iceland
JATR	is a reference to the Joint Authorities Technical Review commencing on 29 April 2019, with participation from Aviation Authorities in the U.S.A., China, the EU, Canada, Brazil, Australia, Japan, Indonesia, Singapore and the United Arab Emirates. The group will conduct a comprehensive review of the certification of the B737 MAX aircraft's automated flight control system.
Jet fuel	is a reference to the type of fuel used to power aircraft
KPMG	is a reference to auditing firm KPMG ehf., ID No. 590975-0449, Borgartún 27, 105 Reykjavík

Listing Advisor, the	is a reference to Íslandsbanki hf., Corporate Finance division, ID No. 491008-0160, Hagasmári 3, 201 Kópavogur, Iceland
Nasdaq Iceland and the Nasdaq Iceland Stock Exchange	is a reference to Kauphöll Íslands hf. (Nasdaq Iceland) ID No. 681298-2829, Laugavegur 182, 105 Reykjavik, which operates Iceland's only regulated market
Mt	is a reference to metric tonnes
Prospectus, the	is a reference to the Company's Prospectus, dated 8 September 2020, formed by the Securities Note, the Share Registration Document and the Summary
Securities Note, the	is a reference to the Company's Securities Note, dated 8 September 2020
Shares, the	is a reference to shares issued by the Company
Share Registration Document, the	is a reference to this Share Registration Document dated 8 September 2020
SDG	is a reference to the United Nations' Sustainable Development Goals
Subscription System, the	is a reference to the online system where investors shall place their subscriptions in the Offering and undergo an appropriateness test
USD	is a reference to United States dollar, the legal tender of the United States of America
VIP	is an abbreviation of the term Very Important Person, in this case clients of Loftleiðir Icelandic ehf., ID No. 571201-4960, that prefer or need special treatment
Warrants, the	is a reference to the warrants (*icel. áskriftarréttindi)* issued by the Company in relation to the Offering
Yield	is a reference to the average fare per passenger per kilometre
YoY	is a reference to Year on Year, *i.e.* a comparison from a point in time of one year to the same point in time in the following year

2.3 The Company's Statement

We, the undersigned, the Chairman of the Board of Directors and the President and Chief Executive Officer of Icelandair Group hf., ID No. 631205-1780, registered office at Reykjavíkurflugvöllur, 101 Reykjavík, Iceland, hereby declare, for and on behalf of the Company, that having taken all reasonable care to ensure that such is the case, the information contained in this Share Registration Document dated 8 September 2020 is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 8 September 2020

For and on behalf of Icelandair Group

Úlfar Steindórsson

Chairman of the Board of Directors

and

Bogi Nils Bogason

President and Chief Executive Officer

2.4 Statutory Auditor's Statement

KPMG ehf., ID. No. 590975-0449, Borgartún 27, Reykjavík, Iceland ("KPMG"), has audited the annual consolidated financial statements of Icelandair Group for the fiscal year 2019. KPMG hereby confirms that the consolidated financial statements of the Company for the aforementioned year give a true and fair view of the financial position of Icelandair Group for the respective year ended 31 December as well as its financial performance and cash flow for the year in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the EU. KPMG confirms that the abovementioned consolidated financial statements found in Chapter 07 *Consolidated Financial Statements for year 2019,* in this Share Registration Document is a true copy of the respective original. KPMG has no material interest in the Company.

Reykjavík 8 September 2020

On behalf of KPMG

Auður Þórisdóttir Hjördís Yr Ólafsdóttir

Certified public accountants and members of The Institute of State Authorized Public Accountants in Iceland

2.5 The Listing Advisor, The Co-Managers and The Advisors

Íslandsbanki and Landsbankinn have jointly acted in the capacity of Co-Managers in relation to the New Shares being admitted to trading on the regulated market of Nasdaq Iceland and preparing the Securities Note. Íslandsbanki as the Listing Advisor has prepared the Prospectus in close co-operation with the Executive Committee and Board of Directors. The Prospectus is based on information provided by the Company, including audited consolidated financial statements. Landsbankinn will handle payments from investors and distribution of the New Shares.

Taking into consideration that the Warrants are, as per the FSA's ruling, complex financial instruments the Co-Managers require all investors to provide information on their knowledge and experience of securities investments relevant to the Warrants. This is to determine whether the Warrants are appropriate for the respective investor, determining if the investor has the necessary experience and knowledge needed to understand the risks involved in relation to receiving and trading the Warrants. The assessment is conducted via an investor questionnaire that forms a part of the subscription process in the Subscription System. The questionnaire must be completed by both individuals and legal entities.

The Co-Managers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is assumed by the Co-Managers as to the accuracy or completeness of the information contained in this document or any other information provided by the Company in connection with the admittance of the Shares to trading and the Offering.

The Co-Managers further will handle execution of the Offering and the allocation of the New Shares based on the Offering results. The Co-Managers will execute the Offering all in line with the Board of Directors resolution. The Co-Managers will perform an assessment of appropriateness for investors, which will be conducted in the Subscription System.

The Co-Managers and Kvika banki have jointly acted as advisors to the Company in the Offering, assisted in preparing the IM and advised in the process of strengthening the long-term capital structure of the Company.

2.6 Documents on Display and Documents Incorporated by Reference

For a period of ten years from the date of issue of this Share Registration Document, the following documents will be available for electronic viewing on the Company's corporate website https://www.icelandairgroup.is/investors/:

Documents on display

- The Summary, the Securities Note and this Share Registration Document all dated 8 September 2020; website link: https://www.icelandairgroup.is/investors/reports-and-presentations/prospectus/.

Documents incorporated by reference and form an integral part of the Prospectus

This Prospectus is to be read in conjunction with all the documents which are deemed to be incorporated herein by reference. This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.

- The Company's Information Memorandum first published 18 August 2020, amended and republished 4 September 2020; website link: https://www.icelandairgroup.is/information-memorandum/.
- Condensed Consolidated Interim Financial Statements of the Company, 1 January 2020 to 30 June 2020 together with the endorsement and statement by the Board of Directors and the CEO; website link https://www.icelandairgroup.is/investors/reports-and-presentations/
- Articles of Association dated 26 May 2020, website link. https://www.icelandairgroup.is/investors/corporate-governance/
- Consolidated Financial Statements of the Company for the year 2019, found in Chapter 07 of this Share Registration Document and on website link: https://www.icelandairgroup.is/servlet/file/store653/item1267781/item.pdf
- Consolidated Financial Statements of the Company for the year 2018, website link: https://www.icelandairgroup.is/servlet/file/store653/item1224194/item.pdf
- Consolidated Financial Statements of the Company for the year 2017, website link: https://www.icelandairgroup.is/servlet/file/store653/item1175445/item.pdf

2.7 Third Party Information

The Issuer confirms that where third party information has been used in the Share Registration Document, the information has been accurately reproduced and the source of such information has been identified. As far as the Issuer is aware and able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

03 INFORMATION ABOUT THE COMPANY

3.1 The Issuer

The legal and commercial name of the Issuer is Icelandair Group hf. The Issuer is registered at the Register of Enterprises in Iceland, with the ID No. 631205-1780. The Issuer's domicile and headquarters are at Reykjavíkurflugvöllur, 101 Reykjavík, Iceland.

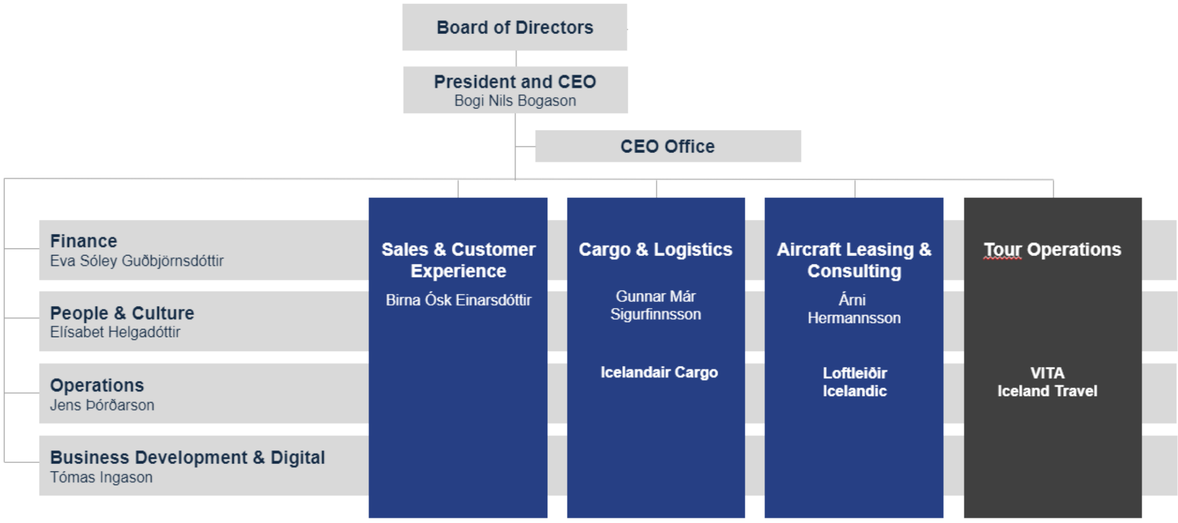
The Issuer is a public limited company incorporated in Iceland operating pursuant to the Icelandic Act No. 2/1995 respecting Public Limited Companies (the "Public Companies Act"). The Issuer is listed on Nasdaq Iceland's regulated market and is therefore subject to Act No. 108/2007 respecting Securities Transactions. The Group's operations are further subject to the Icelandic Aviation Act No. 10/1998, Act No. 41/1949 respecting The Convention for the Unification of certain rules relating to international carriage by air, (commonly known as the "Warsaw Convention"), Act No. 95/2018 respecting Package Tours and Linked Travel Arrangements and Act No. 85/2007 respecting food and beverage services, accommodation establishments and entertainment. Notice is made of the fact the above list is not exhaustive as the Issuer as all other companies, is subject to several general bodies of law such as Act No. 90/2003 on Income Tax and Act No. 3/2006 on Annual Accounts.

Issuer:	Icelandair Group hf.
ID No:	631205-1780
LEI No:	549300UMI5MBLZSXGL15
Legal form:	Public limited company
Date of incorporation:	20 December 2005
Total shares outstanding:	5,437,660,653
Total share capital:	5,437,660,653 divided into shares of one ISK each
Ticker symbol at Nasdaq Iceland:	ICEAIR
ISIN number:	IS0000013464
Domicile:	Reykjavíkurflugvöllur, 101 Reykjavík, Iceland
Website:	www.icelandairgroup.is/investors/[25]
Telephone:	+354 50 50 300

[25] Please note that information presented on the Issuer's website does not form part of the Prospectus unless the information is incorporated by reference into the prospectus.

3.2 Organisation

Item 7. Organisational Structure of Icelandair Group in May 2020



The Company is divided into eight divisions, four core business divisions and four supporting functions. The core business divisions are Sales and Customer Experience, Cargo & Logistics, Aircraft Leasing and Consulting and Tour Operations. The first three divisions focus on maximising the potential and creating value from the Company's international route network with Aircraft Leasing and Consulting using Icelandair Group's long-standing experience, expertise, and operating resources to provide charter and consulting services to airline operators around the world. The four supporting functions are Finance, People and Culture, Operations and Business Development & Digital.

The leaders of the above-mentioned divisions form the Executive Committee, along with Bogi Nils Bogason, President & CEO.

The Airline serves three independent and distinct passenger markets: the Icelandic domestic market (FROM), the tourist market with Iceland as a destination (TO) and the international market between Europe and North America (VIA). Serving these three markets enables Icelandair to offer a higher flight frequency and a greater variety of destinations than would be possible by the markets to and from Iceland alone. For further information on Icelandair's operations reference is made to Chapter 3.3 *The Route Network and the Company's vision* in this Share Registration Document.

3.2.1 Subsidiaries and associates

Icelandair Group held seven subsidiaries at the end of June 2020, some of which operate certain aspects of the Company's business. The subsidiaries that have operational significance are mentioned hereinafter while others are smaller subsidiaries, in some cases holding companies, that are not of financial or operational significance. The Company further has interests in number of associates.[26]

[26] For further details see Note 20 to the Group's 1H 2020 which is incorporated into this Share Registration Document by reference.

Icelandair ehf.

Icelandair is a passenger airline with an international route network that serves three different and independent passenger markets; the Icelandic domestic market, i.e. the FROM market, the tourist market with Iceland as a destination, i.e. the TO-market, and the international market between Europe and North America, i.e. the VIA market. Icelandair subsidiary, Icelandair Cargo, offers freight services by utilizing the belly space of the Icelandair passenger network aircraft as well as their own freighters. Page 113 in the Company's IM elaborates on the operations of the cargo division.

Air Iceland Connect ehf. – *Operations currently being integrated with Icelandair*

Air Iceland Connect is the Group's regional carrier. The company operates from Reykjavík Airport and offers a domestic flight schedule along with regular flights to several destinations in Greenland. The regional domestic market demand has historically shown a correlation with the underlying performance of the local economy.

Icelandair Group announced in March 2020 that the Company is currently in the process of integrating the operations of Air Iceland Connect with Icelandair. The integration is expected to be completed in 2020. The objective of these changes is to increase revenue opportunities, simplify processes, reduce overhead and other operating costs.

Loftleiðir Icelandic ehf.

Loftleiðir Icelandic is a capacity solution company for international passenger airlines and tour operators. Loftleidir Icelandic focuses on the Aircraft and Maintenance ("AM") product in its sales and marketing efforts, especially the B737NG[27] type, while maintaining its marketing efforts in the VIP, Aircraft, Crew, Maintenance and Insurance ("ACMI") and full charter markets. Page 113 in the Company's IM elaborates on the operations of Loftleiðir Icelandic.

FERIA ehf. (VITA)

Vita offers a variety of leisure tours to Icelanders travelling abroad. By leveraging Icelandair's capacity in the FROM market, Vita can offer organised groups and individuals' trips with a direct charter flight operated by Icelandair and other airlines.

Iceland Travel ehf.

Iceland Travel is a tour operator in Iceland, offering a wide range of high-quality services for travellers from all over the world, including categories such as Leisure, MICE (Meetings, Incentives, Conferences and Events) and Cruise Services.

Investment in associates

Icelandair Hotels (Flugleiðahótel hf.)

In April 2020 the completion of the sales process of a 75% equity share in Icelandair Hotels to Berjaya Property Ireland was finalized. The Company retains the remaining 25% for a minimum of three years subject to a put and call option agreement. As a result, from Q2 2020 onwards, Icelandair Hotels is an associate company in the Group's financial statements. Further details on the sale transaction can be found in Chapter 4.2.3 *Divestment of non-aviation businesses.*

[27] NG stands for Next Generation, the name given to the −600/-700/-800/-900 series of the Boeing 737 airliner.

Lindarvatn ehf.

Icelandair Group owns a 50% share in real estate development company Lindarvatn ehf. The company's sole project is the development and construction of a 145-room luxury hotel, along with office and retail space, in down-town Reykjavík. The Iceland Parliament Hotel stands adjacent Iceland's Parliament at Austurvöllur square.

3.3 The Route Network and The Company's Vision

The Group's business concept centres on Icelandair's route network which is based on the hub-and-spoke model offering convenient air travel between Europe and North America via Iceland, leveraging Iceland's geographical position. This successful strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed the Airline to grow and expand its route network over the years. The Airline is a key component in the Group's business strategy. Further information on the execution of the Company's business model and strategy is found on pages 8-11 and 103 in the Company's IM.

The Airline operates under an AOC issued by the ITA and is as such considered European Aviation Safety Agency ("EASA") compliant. Icelandair is an Icelandic carrier and has route rights in accordance with this status.

Icelandair Group has been at the forefront of devising a long-term strategy for Iceland as a year-round destination. Through its targeted efforts and significant investments, the Company has played a leading role in the development of Icelandic tourism, benefiting not only its own operations but the entire Icelandic travel industry. Furthermore, the Airline's subsidiary Icelandair Cargo, has played a leading role in providing air freight services in Iceland. The focus on steadily developing the route network over the years has been key to enhancing Iceland's position as an international connecting hub by efficiently connecting flights between Europe and North America.

The Company's vision is:

To bring the spirit of Iceland to the world.

The Company's values are:

PASSION – SIMPLICITY – RESPONSIBILITY

3.3.1 Environmental, social and corporate governance factors

Aviation connects people, cultures and facilitates international relations, business and transport. For an island located in the middle of the North Atlantic, aviation is fundamental to connect to the world and maintain a good quality of life. As the leading airline in Iceland and a large employer, Icelandair Group takes its responsibility towards its employees, customers, the environment, society and the Icelandic economy seriously.

In 2019, Icelandair Group developed a new strategy in corporate responsibility based on the United Nations' Sustainable Development Goals ("SDGs"). These goals have become a universal language of governments and businesses to work towards a more sustainable future. The Company issues an annual report where its corporate responsibility information is presented in accordance with the Global Reporting Initiatives ("GRI") standards – core level, and with reference to Nasdaq's ESG Reporting Guide.

Strategic focus areas and key goals

As part of the process to define strategic focus areas, the Company engaged in large-scale stakeholder dialogue, reviewed benchmarks and trends, and identified Icelandair Group's positive and negative impacts on all targets and sub targets of the SDGs. As a result and based on involvement of all functions and business units within the Company, four Global Goals were chosen as strategic focus areas. These represent areas where Icelandair Group can create shared value, in addition to complying with other key elements of responsible business as listed in the Company's responsibility model.

Key responsibility goals

Specific targets have been set for several of the focus areas and action plans developed for the next five years, while a few are still being explored to better understand the current baseline.

Reducing CO2 emissions (SDG 13 – Climate action)

- 20% reduction of CO2 emissions from flight operations (relative to OTK[28]) 2015-2025
- 40% reduction of CO2 emissions from ground vehicles

Promoting gender equality (SDG 5 – Gender equality)

- Never less than 40% of either gender in management positions
- Increase the number of female pilot positions by 25%
- Increase the number of male cabin crew positions by 25%
- Increase the number of female aircraft maintenance technicians by promoting the job and education to girls

Ensuring a responsible supply chain (SDG 12 – Responsible consumption and production)

- By end-2020, top 100 suppliers have gone through risk screening model and actions have been taken to act on the assessment
- By end-2021, Supplier Code of Conduct integrated in all business contracts
- By end-2021, all significant suppliers have gone through risk screening model and actions have been taken to act on the assessment

[28] OPT stands for Operational Tonne Kilometre.

Driving economic value (SDG 8 – Decent work and economic growth)

- Map Icelandair Group's contribution to Iceland's economy

More information about actions taken in 2019 and originally planned for 2020, as well as detailed information related to the GRI standards and the ESG reporting, can be found in the Company's annual report.[29]

3.3.2 The Route Network

The Airline's original 2020 route network comprised 24 European direct destinations and 17 North American direct destinations.[30] These 41 destinations in Europe and North America were to offer Icelandair customers 500 connection options through the hub in Iceland. Further the Company holds highly valuable slots that are difficult to procure and instrumental for a hub business model, see in detail on page 21 of the Company's IM.

As a result of the outbreak of COVID-19, Icelandair, as indeed most of the world's airlines, has drastically decreased its Production levels, temporarily halting flights to the vast majority of its scheduled destinations. At the date of this Share Registration Document Production is around 16% of the original 2020 August schedule but went as low as 2% in April and May. The Airline is not flying to any US destinations, except a few flights to Boston and Seattle.[31] These changes are entirely connected to current travel restrictions and/or demand shocks stemming from mandatory quarantines imposed on all incoming travellers or in some cases full lockdowns in nearly all of the Company's destinations. The Company's cargo operations have been less affected.

Due to the unique effects of COVID-19, the uncertainty surrounding the Company's route network for the year 2020 and onward is extraordinary. At this time, it remains uncertain when and to what extent the Company will be able to ramp up, or even keep current levels of its Production. Production ramp-up hinges on two main factors; the lifting of travel bans along with suspension of mandatory quarantines/lockdowns on the one hand and that the individual route in question makes economic sense for the Company to operate. The latter relies on many factors such as the Company's cost structure, the price of jet fuel, the level of competition on the Company´s routes and the willingness of people to travel in a post-pandemic world. The ramp up may happen gradually, e.g. through full ramp-up of certain destinations while others remain closed, or all at once if demand justifies it. The Company may also decide to suspend certain previously announced routes all together for a shorter or longer term.

Significant changes, permanent or temporary, that may be decided as a result of the pandemic, will be publicly announced if they are likely, on a stand-alone basis, to have meaningful impact on the Company's operations or financial standing.

3.3.3 The Fleet

The largest part of the Company's operating assets consists of its fleet (including aircraft engines, flight equipment and aircraft spare parts) which comprised 51 aircraft, 49 passenger aircraft and 2 cargo aircraft at 31 December 2019 (see Item 8). Thereof 41 aircraft were owned

[29] Website link: https://annualreport2019.icelandairgroup.is/responsibility/
[30] Correspondingly the route network connected 23 European destinations and 21 in North America in 2019.
[31] The Company and the Icelandic government signed an agreement on 27 March 2020, pursuant to which the Company agrees to continue flying to Boston two days a week. In return the Icelandic government will cover losses incurred for those flights. This agreement originally also included London and/or Stockholm. The agreement is in place until 19 September but may be renewed then if deemed necessary.

and 10 were held on operating leases. Of the 41 aircraft that the Company owns, 10 were unencumbered at 31 December 2019.

The carrying amount of aircraft and flight equipment amounted to USD 491 million at 31 December 2019.

Item 8. Icelandair Group fleet as at 31 December 2019

Aircraft type	Icelandair	Icelandair Cargo	Loftleiðir Icelandic	Air Iceland Connect	Group fleet	Of which owned	Of which leased
B757-200	22	2	5		29	26	3
B757-300	2				2	2	
B737 MAX 8	5				5	2	3
B737 MAX 9	1				1		1
B767-300	4		2		6	5	1
B737-700			1		1		1
B737-800			1		1		1
Bombardier Q-200				3	3	3	
Bombardier Q-400				3	3	3	
TOTAL	34	2	9	6	51	41	10

The Airline's route network fleet comprises 34 aircraft. Thereof six B737 MAX[32] aircraft are grounded. To compensate, the Airline leased three B737-800 aircrafts for the 2020 high season. As a reaction to the COVID-19 crisis the Airline has since cancelled all of those at negligible cost. In February 2013, the Airline ordered sixteen B737 MAX aircraft to ensure future fleet growth and replacement. Thereof six aircraft have been delivered; three in 2018 (all B737 MAX8) and three in the first quarter of 2019 (two B737 MAX8 and one B737 MAX9).

The Airline has reached a settlement with Boeing regarding the impact of the suspension of the B737 MAX aircraft. The settlement provides additional compensation for Icelandair, covering a substantial portion of the damages incurred from the suspension. The compensation will mostly be realized by Q2 2021.

The agreement further reduces Icelandair's purchase commitment by four aircraft and sets out a revised delivery schedule for the remaining six B737 MAX (see Item 9 below).

Item 9. Boeing 737 MAX8 and MAX9 revised delivery schedule

	Q2 2021	Q4 2021	Q1 2022
Boeing 737 MAX8	1	1	1
Boeing 737 MAX9	2	1	
TOTAL	**3**	**2**	**1**

The agreement allows for a more flexible fleet planning in the upcoming years. The B737 MAX aircraft continues to be an important element of the Airline's plan to strengthen its business and increase flexibility and capability for growth.

[32] The Company's 2013 order with Boeing comprised 16 B737 MAX aircraft to be delivered until 2021.

The current fleet strategy assumes continued use of the Airline's B757-200 aircraft alongside the B767-300, B757-300 and B737 MAX aircraft through 2025. The B737 MAX aircraft are intended to support fleet growth and balance against the reduction of B757-200 aircraft over the period. The fleet plan assumes a moderate phase out of the existing fleet of B757 and B767. Phaseout options of aircraft include sale, conversions and part-outs.

The number of aircraft needed and ultimately operated for the remainder of this year and beyond will entirely rest on the Airline's Production level and how much and how fast it can ramp up. The fleet of B757 and B767 enables the Airline to scale the fleet up and down in times of uncertainty by putting aircraft in storage.

Item 10. The Airline's fleet plan (Icelandair route network)[33]

Aircraft type	2020	2021	2022	2023	2024	2025
B757	22	19	17	15	13	9
B767	4	4	4	4	4	4
B737-MAX	6	9	12	12	12	12
Additional aircraft					5	11
Aircraft in storage	(12)	(9)	(7)			
Total aircraft	**20**	**23**	**26**	**31**	**34**	**36**

The long-term fleet plan assumes additional aircraft commitments beyond the Airline's current firm fleet commitments in 2025 onwards. The type of such additional aircraft is unknown at this point in time. Icelandair will evaluate its options before any decision is made in due course. Given the long-term planning horizon for aircraft such decisions are made at least one year in advance. The criteria for such decisions will consider, but not be limited to, the development in passenger demand and aircraft financing terms.

The additional aircraft options for the narrow-body aircraft include the B737MAX or A320 neo family aircraft, either sourced as new or used. Introducing a new aircraft type (other than B737MAX) would involve tasks and costs including, but not limited to, pilot and cabin crew training, air mechanic training and updating operational and maintenance procedures.

Any changes to the fleet, whether due to reaction to COVID-19 or as a result of the review of a longer-term strategy will be duly announced to investors. For information on the delivery and financing of the new aircraft reference is made to Chapter 4.3.2 *Investments and leases* in this Share Registration Document.

[33] Shows number of aircraft in operation during the peak summer season.

04 OPERATION AND FINANCIALS

KPMG has audited the annual consolidated financial statements of the Group for the referred fiscal year in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board. The financial statements for the 2019 fiscal year can be found in Chapter 07 *Consolidated financial statements for year 2019.* The consolidated financial statements contain neither qualifications nor disclaimers by the auditor. KPMG has been the Company's auditor since 1973.

Investors should read the Group's consolidated financial statements and the related notes, as well as the other sections of the Prospectus, and should not rely solely on the information contained in this section.

The outlook contained in this section reflects the Executive Committee's general outlook at the date of this Share Registration Document and is subject to risks, uncertainties and other factors that could differ materially from those contemplated here. Factors that may cause such differences include, but are not limited to, those discussed in Chapters 01 *Risk Factors* and 02 *Notice to Investors*. Due to measures taken throughout the world to mitigate the possible expansion of the COVID-19 pandemic the Company suspended its 2020 fiscal guidance on 1 March 2020 given the increased uncertainty surrounding the Company's financial outcome for the year.

The Executive Committee is not aware of any governmental, legal, economic or fiscal policies in Iceland or other jurisdictions that have in the past twelve months, or could in the next twelve months, other than those that have been described in this Share Registration Document, likely have material adverse effect on the Company's financial position or results of operations.

For changes to the Company's financial or trading position since the end of the last financial period, 31 December 2019, reference is made to Chapter 4.2 *Recent events and changes to the Company's operations*.

4.1 Material Contracts Outside the Company's Ordinary Course of Business

Agreements related to the Company's financial restructuring

The Company has entered into agreements with all material creditors, comprising lenders, lessors, credit card acquirers and hedging counterparties, whereby the Company's payment schedules have been restructured so as to align the cash outflow with the anticipated cash generation up to the next 24 months. The Company has further reached an agreement with the Icelandic Government whereby the Icelandic State provides a guarantee to two local banks, Íslandsbanki and Landsbankinn, for 90% of a USD 120 million credit facility that these banks will jointly provide the Company. The drawdown period of the government guaranteed credit facility is two years followed by a three-year repayment profile. The guarantee is contingent on the Company successfully raising at least ISK 20,000 million in new equity capital in the Offering. For details on the Company's financial restructuring and mitigation actions due to COVID-19, reference is made to Chapter 4.2.1 *COVID-19 pandemic mitigation actions,* as well as pages 29 and 30 in the Company's IM.

Agreements related to the sale of Icelandair Hotels

The Company entered into multiple agreements with the buyer of Icelandair Hotels, including but not limited to a Put Option Agreement, a Shareholders Agreement and a Cooperation and Service Agreement. Further details on the transaction can be found in Chapter 4.2.4 *Divestment of non- aviation businesses* of this Share Registration Document.

Agreement related to the Offering

The Company, Íslandsbanki and Landsbankinn have entered into an underwriting agreement in relation to the Offering. Íslandsbanki and Landsbankinn (jointly named the "Underwriters" and separately named the "Underwriter") have agreed, subject to certain conditions, to collectively purchase, from the Company, New Shares in the Offering at the offering price for a total consideration of up to ISK 6,000 million (the "Underwriting Commitment") that is equally divided between the Underwriters, see following item:

Item 11. Underwriting Commitment

Underwriter	Maximum New Shares to be purchased	Maximum Purchase Value (ISK)
Íslandsbanki hf.	3,000,000,000 shares	3,000,000,000
Landsbankinn hf.	3,000,000,000 shares	3,000,000,000
TOTAL	6,000,000,000 shares	6,000,000,000

Further details on the Underwriting Commitment can be found in Chapter 5.13 *The Underwriting* in the Company's Securities Note dated 8 September 2020.

4.2 Recent Events and Changes to The Company's Operations

Since the end of the last period for which audited financial statements have been published certain events have taken or are set to take place. These changes, to a smaller or larger extent, will have bearing on the Company's financial reporting going forward. Investors are advised to consider this when making comparison between individual fiscal years as well as between the Company's 2019 and future consolidated financial statements.

The largest, most significant changes are:

- COVID-19 pandemic mitigation actions
- Steps taken to secure long-term capital structure
- Negotiations with unions
- Divestment of non-aviation businesses
- Integration of Air Iceland Connect and Icelandair

4.2.1 COVID-19 pandemic mitigation actions

The COVID-19 pandemic has significantly affected the demand for international travel. There has been rapid development in the spread of the virus, which the World Health Organisation declared a pandemic on 11 March 2020. Since then the pandemic has, among other, evoked some kind of emergency measures in most countries around the world (including the Issuer's country of incorporation, Iceland) and caused great volatility in financial markets both globally and in Iceland.

On 21 March 2020 the Icelandic Government announced its first response package to the COVID-19 outbreak. The package is equivalent to ISK 230 bn (USD 1.6 bn)[34] in value or just under 8% of Iceland's GDP. The Icelandic Government's aim was to safeguard the economic livelihood of people and businesses, protect the welfare system and sustain a healthy demand in the economy. The effects of the response package on the Company's operations was securing wages and postponing taxes. The Icelandic Government also allowed part-time workers to claim up to 75% of unemployment benefits to avoid job losses and companies are given the opportunity to postpone payment of certain taxes until next year to safeguard liquidity, and specific hotel taxes were abolished until the end of 2021.

On 23 March 2020 the Company announced that the COVID-19 pandemic had significantly affected demand resulting in the Company operating only 14% of its planned flight schedule. It further stated that it expected Production to decline even further in the coming weeks. The effect of the outbreak had also had a significant impact on the operations of other companies within Icelandair Group.

The Company's first mitigating actions were threefold. Firstly, with salary and other personal expenses being the single largest cost item (33% of revenue in 2019), the Company temporarily cut the employment ratio of 92% of all employees. Most of these employees were eligible for the counter-measure initiative introduced by the Icelandic Government whereby they could claim unemployment benefits to supplement their part-time income. These measures limited the number of layoffs and positively impacted the Company's cash flow in the short-term contrary to what the permanent termination of employment would have done, since that would have triggered the payment of full salaries during employees' contractual notice periods. Secondly, the employment of around 240 employees was permanently terminated. The layoffs affected most divisions within the Company. The total number of Icelandair Group employees (Full-time equivalents "FTEs") was on average 4,715 in 2019.[35] Thirdly, a temporary 20% salary reduction applied to all employees that remained in full-time employment, without corresponding changes to their employment ratio. Executive Management salaries were reduced by 25% and the salary of the CEO and Board of Directors by 30%. All these measures positively contributed to the flexibility of Icelandair Group, decreased cost and improved cash flow.

On 28 April 2020 the Icelandic Government announced increased support for companies and an extension of the period for which part-time unemployment benefits could be claimed. Icelandic companies that had suffered substantial revenue losses due to the COVID-19 pandemic were given an opportunity to apply for government support to pay a portion of salary costs during the employees' notice period, protecting workers' rights and preventing a wave of corporate insolvencies. This support is in the form of a government subsidy in the amount of ISK 633,000 per month for up to three months, plus one month's holiday pay for each employee made redundant. It was limited to companies that have suffered at least a 75% loss in revenue year on year and are forecasting continued revenue losses at least through 2020.

On 28 April the employment of around two thousand one hundred and fifty employees was terminated, affecting all divisions within the Company, although roles directly linked to production, such as crew, maintenance and ground operations, were affected the most. The

[34] Source: Icelandic Government website, www.government.is

[35] This FTE figure is for year end 2019 and includes Icelandair Hotels employees. At the date of this Registration Document Icelandair Hotels is excluded in all figures.

majority of the remaining employees continued in part-time roles and those in full time roles continued to be affected by a salary cut. The Company has since reinstated around 300 FTEs.

On top of the measures concerning employment levels the Company has taken decisive measures across all operations, including renegotiations with suppliers, lessors and its lenders. At the same time, the Company has acted swiftly and seized opportunities that the current situation has created, such as in the cargo and leasing operations.

Other measures that the Company has executed or taken advantage of in order to strengthen its prospects in response to COVID-19:[36]

- Flights have been reduced and certain destinations have been abandoned altogether until further notice.
- Excess aircraft have been placed in long-term storage.
- Postponed and waived airport and navigation charges.
- Deferrals of salary- related taxes and import duties for the period April-June until Q1 2021.
- Renegotiations of contracts with key suppliers.
- Deferrals obtained from key suppliers.
- Organizational changes within the Company, reduction of managing directors and directors.

The Company's production level was higher than initially forecasted in the period 15 June - 18 August with about 13% of the original flight schedule being flown. However, production levels have dropped following the introduction of stricter screening protocols at the border. The Company had anticipated this in its conservative ramp-up plan and expects fluctuations in production levels to continue until COVID-19 is effectively contained as described in the IM.

As previously mentioned, the Company will continue to thoroughly monitor the situation and is working closely with all relevant authorities to ensure the health and wellbeing of its customers and employees. The Company will update the market on all important issues through official announcements as and when more information becomes available.

4.2.2 Steps taken to secure long-term capital structure

On 6 April 2020, the Company announced plans to strengthen its long-term capital structure. To that effect the Company engaged Kvika banki, Íslandsbanki and Landsbankinn as advisors with the objective of exploring all possibilities to strengthen the Company’s competitiveness for the future by having a stronger financial position and lower unit cost when recovering from the COVID-19 pandemic. The objective of the restructuring is to ensure that Icelandair Group will get through these difficult times as smoothly as possible while minimising disruption to the Icelandic tourism industry and economy. It is further meant to secure Icelandair’s ability to react quickly when travel resumes and countries re-open. This work has been done in close cooperation and consultation with the Icelandic Government. On 30 April 2020, the Company announced that it was preparing an offering of new shares in the Company to strengthen its capital position. Further information regarding the offering can be found in the Company’s Securities Note dated 8 September 2020, specifically Chapter 05 *Terms and Conditions of The Offering.*

[36] These measures have been executed ad hoc due to COVID-19 and are not all found in a written agreement.

The Company has executed fully documented deferral agreements with all material creditors. The agreements are conditioned upon the successful completion of a share offering and the Company entering into an agreement regarding a government guaranteed credit facility.

The deferral agreements include renegotiated financial covenants. According to the restructured terms the equity ratio will be the Company's primary financial covenant in the coming quarters, and the minimum of that covenant is aligned with the conservative ramp-up approach scenario discussed in the Company's IM, with a certain flexibility, e.g. in case of minimum production or if the current situation persists. The covenant is therefore set somewhat below the values shown in the scenario in the IM. The equity ratio shall be a minimum of 8-10% in terms of loan agreements with lenders and a minimum of 2% in terms of the government guaranteed credit facility.[37] It is assumed that the amended equity ratio covenant will be in place until Q1-Q3 2022, depending on lenders, at which time the pre-COVID-19 financial covenants will resume to take effect. The Company was in compliance with those covenants before the pandemic. Investors are advised that waivers from financial covenents in loan agreements may result in changes to the presentation of the Company‘s financial statements with regards to the associated loans. Such changes will be clarified in the notes to the respective financial statements.

Lastly, negotiations with Boeing regarding the B737 MAX orderbook and compensation have been completed and documented. The agreement grants the Company further compensation for its loss due to the grounding of the B737 MAX and sets out changes to the delivery schedule of the remaining B737 MAX aircraft, whose number will be reduced from 10 to 6.

On 18 August the Company announced that it had been granted a credit facility 90% guaranteed by the Icelandic Government that is conditioned upon a successful share offering.

Main terms of the government guaranteed credit facility:[38]

- Total available credit of USD 120 million
- Nominal interest is decided by Libor + margin, with a step-up in margin as more of the line is drawn
- Provided in equal parts by Íslandsbanki and Landsbankinn, 90% guaranteed by the Icelandic Government
- 2-year drawdown period with final maturity after five years
- The Company can terminate the facility during the 2-year drawdown period
- Financial covenant of a minimum 2% equity ratio
- Secured with liens in the Company's brand, booking infrastructure and if practicable, its landing slots at strategic airports
- Ban on dividend payments
- The credit facility may only be used towards the Company's flight operations to and from Iceland
- Not subject to Act No. 121/1997 on Government Guarantees

[37] Further details on the potential impact of the Warrants including the appropriate accounting procedures is found on page 115 in the Company‘s IM.

[38] Further details on terms and conditions of the government guaranteed credit facility can be found on the following websites; https://www.stjornarradid.is/library/02-Rit--skyrslur-og-skrar/2020%200825%20Skilm%c3%a1laskj%c3%a1l_L%c3%a1nal%c3%adnur.pdf and https://www.althingi.is/altext/pdf/150/s/2032.pdf. *(Only available in the Icelandic language).*

At the date of this Share Registration Document the Company has negotiated important concessions with lenders, lessors, credit card acquirers and hedging counterparties amounting to USD 450 million. The concessions consist of the following:

- All capital repayments to lenders have been deferred for a period of up to 24 months
- Payment deferrals from lessors have been secured for up to 12 months
- Payment plans have been set up for participation by key acquirers in the refunds of unflown cancelled tickets
- Payment terms with largest acquirer (that processes 70% of volume) contracted to remain unchanged during low production period with reasonable and modest adjustments to a new normal once ramp-up starts
- New long-term agreement with improved payment terms with the 2nd largest acquirer in final stages, expected to be signed by end of Q3 2020 at latest
- Settlement agreement with Boeing securing compensation and a reduction in aircraft purchase commitments
- Negotiations with vendors in relation to large expense categories (e.g., airline IT & distribution, jet fuel, maintenance, airports and materials) via renegotiated agreements, deferrals, discounts and significant reduction in purchase commitments
- Hedging contracts were closed at a discount with 4 counterparties with the remaining hedge position being rolled forward and spread over a period of 24 months, throughout June 2022.

The renegotiated agreements with creditors are not dependent on a specific payment following the completion of the Offering but some are subject to the successful completion of the Offering. According to the restructured terms, the equity ratio shall be a minimum of 8-10% in terms of loan agreements with lenders and a minimum of 2% in terms of the government guaranteed credit facility. Interest rate margins remain the same post restructuring. Interest rate margins remain the same post-deferral.

4.2.3 New union contracts

The Company has completed new and/or revised collective bargaining agreements with its three major flight operations unions, FFÍ, FÍA and FVFÍ. These are vital to secure the Company's long-term competitiveness. All the agreements carry with them improvements in efficiency by increasing the Company's utilization of staff and providing the necessary flexibility to develop its route network to include new destinations. The estimated increase in efficiency as a result of these new agreements ranges from 20% for FFÍ and FVFÍ to 25% for FÍA. Further details on the new union contracts can be found in the IM, pages 39-43 and page 102 and Chapter 1.2.6. *The airline industry is vulnerable to labour disputes and strikes.*

4.2.4 Divestment of non-aviation businesses

Following a strategic decision to place greater focus on the Group's key competencies, i.e. the airline industry, the Company signed a share purchase agreement on 13 July 2019 with Berjaya Property Ireland, a subsidiary of Berjaya Land Berhad, whereby Berjaya acquired a majority share (75%) in Icelandair Hotels and related real estate. The transaction was completed in April 2020 and the Company will hold the remaining 25% share for a minimum of three years. In its capacity as co-owner of Icelandair Hotels the Company is a guarantor on certain obligations for Icelandair Hotels. These include a simple guarantee for a loan agreement along with guarantees for rental agreements regarding hotel properties. At the current USD/ISK exchange rate these guarantees total approx. USD 13.7 million. The guarantees are provided in solidum, but the co-owners have entered into an agreement regarding the split of these guarantees according to ownership stakes (25%/75%). The loan guarantee decreases with the loan balance but is valid throughout its maturity. The loan is a five-year term loan with a possibility to extend the repayment profile to a total of 25 years.

Due to the temporary adverse economic effects of the COVID-19 pandemic on Icelandair Hotels' operations the Company agreed to a reduction in the final payment from USD 20 million to USD 10.3 million. The total purchase price for the 75% share of the Company therefore amounted to a total cash payment of USD 45.3 million which has been paid in full.

Icelandair Hotels and Iceland Travel accounted for 10.7% of the Company's total revenue in 2019. Item 12 details the impact of Icelandair Hotels on key financial items in the Group's 2019 Consolidated Financial Statements. For full details see Note 7 to the Group's 2019 Consolidated Financial Statements found in Chapter 07 *Consolidated Financial Statements for Year 2019* of this Share Registration Document.

Item 12. Impact of tourism services on the 2019 Consolidated Balance Sheet

USD ´000	**Icelandair Hotels** 1.1.2019-31.12.2019	**Iceland Travel** 1.1.2019-31.12.2019	**Total** 1.1.2019-31.12.2019
Operating assets	100,135	66	100,201
Right-of-use-assets	145,764	145	145,909
Intangible assets and goodwill	5,991	1,446	7,437
Investments in associates	1,011	0	1,011
Inventories	902	0	902
Trade and other receivables	7,605	2,355	9,960
Cash and cash equivalents	10,575	912	11,487
Total assets	**271,983**	**4,924**	**276,907**
Deferred tax liabilities	1,703	342	2,045
Loans and borrowings	66,098	0	66,098
Lease liabilities	149,402	152	149,554
Trade and other payables	10,094	3,357	13,451
Deferred income	4,641	2,943	7,584
Total liabilities	**231,938**	**6,794**	**238,732**
Net Assets and liabilities	**40,045**	**(1,870)**	**38,175**

In the year 2020 Iceland Travel has been reclassified from assets held for sale. The Company therefore is not expecting a sale of Iceland Travel to be completed before year-end 2020 as previously anticipated.

4.2.5 Integration of Air Iceland Connect and Icelandair

On 31 March 2020 the Company announced the decision to integrate the operations of its subsidiary Air Iceland Connect into the operations of Icelandair. Air Iceland Connect operates domestic flights in Iceland and scheduled flights to Greenland. All supporting functions, such as sales, marketing, operations, finance, HR and IT will be integrated into Icelandair's operations. The role of Managing Director has been discontinued. Árni Gunnarsson, the former

Managing Director of Air Iceland Connect, has been appointed Managing Director of Iceland Travel.

4.2.6 Other significant changes

Apart from what is stated above no other significant changes have occurred that would impact the Company's financial or trading position since the end of the last financial period for which audited financial statements have been published, 31 December 2019. The Company would like to stress that the current volatile market conditions and uncertainty may exaggerate fluctuations in the value of assets, both tangible and intangible, over the next quarters.

4.3 Significant Trends and Investments

4.3.1 Effects of fluctuations in the market price of jet fuel

The Company's financial results are substantially affected by the market price of jet fuel, as fuel costs are the second largest cost item for the Company, after salaries. In 2019, fuel costs amounted to USD 323.5 million, 23.7% of the Company's operating expenses (before depreciation). The residual impact of jet fuel price fluctuations is determined by hedging applied in fuel purchases. The Company's operating results can however be materially affected by changes in the price and availability of jet fuel despite such hedging.[39] The current Group strategy is to hedge between 40% and 60% of fuel consumption 12-months forward and up to 20% from 13-18 months forward. In implementing the strategy, the hedge programme allows for a number of derivatives with approved counterparties and within approved limits. As discussed in Chapter 1.2.4. *The airline industry is subject to volatile jet fuel prices* the Company has temporarily deviated from the official hedging policy. At year-end 2019 half of the estimated 12 months usage of 350,000 tonnes was hedged with swaps. The supply and demand of jet fuel is unpredictable and price fluctuations are based on events outside the Company's control. The Company's current hedge price (forward price) is USD 663.5 mt while the current world market price at the date of this Share Registration Document is USD 297 mt. As previously disclosed the Company's fuel hedging policy will be reviewed in due course, when the current extreme uncertainty subsides.

Jet fuel prices have fluctuated significantly, going from USD 656 mt at the beginning of the year 2020 to as low as USD 220 mt in April. The volatility of jet fuel prices impacts the profitability of the entire airline industry.

4.3.2 Investments and leases

Aircraft financing refers to financing for the purchase and operation of aircraft. The global market for such financing is both extensive and active.

As described in Chapter 3.3.3 *The Fleet,* Icelandair Group and Boeing signed an agreement for the purchase of sixteen 737 MAX8 and 737 MAX9 aircraft in 2013. The commitment for all sixteen aircraft was valued at USD 1.6 billion which was Boeing's list price at the time. The Company received acceptable discounts that, due to confidentiality agreements, cannot be disclosed. Pre-payments according to the agreement were (and will be made) over the construction period.

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[39] The Company's risk policy requires a hedge ratio between 40% and 60%.

Three B737 MAX 8 aircraft were delivered in 2018. Two B737 MAX 8 and one B737 MAX 9 were delivered in Q1 2019. In Q2 2019, Icelandair was expected to take delivery of three B737 MAX aircraft, i.e. one B737 MAX8 and two B737 MAX9. As a result of the suspension of the B737 MAX, in place since March 2019, Icelandair and Boeing have signed an agreement whereby the residual number of aircraft the Company will take delivery of has been reduced from ten to six. Moreover, the delivery schedule of these six aircraft has been realigned with the aircraft now expected to join Icelandair's fleet from Q2 2021 to Q1 2022. In December 2018 Icelandair reached an agreement with BOC Aviation on the financing of pre-delivery payments for the original B737 MAX aircraft orderbook, as well as a sale and leaseback of two aircraft, of which one has already been delivered with the other one expected to be delivered in spring 2021. The agreement furthermore provides backstop financing in the form of sale and leaseback for the remaining five aircraft in case that alternative financing of those aircraft has not been obtained in due time.

Financing of aircraft acquisitions are generally secured on a periodic basis, the size and timing depending on the particular schedule of delivery. A failure to secure financing or to meet payment obligations under aircraft acquisition contracts may lead to a breach of contract. Such default may result in financial penalties and make the Group unable to take delivery of the acquired aircraft. The Company's long-term target is to debt finance about 75% of its fleet against 25% in equity.

With regards to other general capital investments, the Company has greatly reduced its original investment plan for the year 2020. Investments in fixed assets are expected to amount to USD 68 million. The majority will be in fleet maintenance (USD 53 million) and engine rental hours (USD 8 million).

4.4 Current Financials

At 30 June 2020 the carrying amount of Icelandair Group's total interest-bearing loans and borrowings was USD 263 million, whereof USD 28 million was denominated in ISK, USD 172 million in USD and USD 62 million in EUR. The debt carried a weighted average interest rate of 3.8%, 3.8% and 1.2% respectively. At 30 June 2020 the Company's equity ratio was 11%, opposed to an equity ratio of 29% at year-end 2019.

The Company's cash and cash equivalents amounted to USD 154 million at 30 June 2020.

The Condensed Consolidated Interim Financial Statements of the Company for the period from 1 January to 30 June 2020 ("1H 2020") has been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements. It has not been audited or reviewed by the Company's independent auditors. The Condensed Consolidated Interim Financial Statements of the Company for 1H 2020 is incorporated into this Share Registration Document by reference and is available for electronic viewing on the Company's corporate website: https://www.icelandairgroup.is/investors/.

4.5 Outlook

Operations in 2020 have been and continue to be characterised by exceptional uncertainty. The impact of the COVID-19 pandemic on demand for and operations of world travel have already been devastating. How lasting the effects will be remains to be seen. As a result, the Company suspended its 2020 fiscal guidance on 1 March 2020. As previously discussed, the

Company has reached agreements with its major creditors and vendors to decrease financial liabilities and improve liquidity during its minimal operations period. The total concessions reached through these contracts, most of which are subject to a successful Offering, are estimated to equal USD 450 million.

The guiding principle in the Company's financial restructuring and its conservative ramp-up plan is to ensure it can withstand a potentially prolonged period of below normal demand, while still maintaining the ability to easily ramp up Production as international travel picks up and opportunities arise in the Company's markets. The Company anticipates this period of minimal production to last until the end of Q1 2021 followed by a conservative ramp-up starting in Q2 2021. Historically, capacity in international air travel has rationalized following demand shocks whereby transatlantic routes are discontinued presenting opportunities for Icelandair's business model and its Keflavík hub, leveraging the Company's internationally strong brand, a flexible fleet and ongoing good ties with core travel and tourism partners in all markets. Broadly speaking the Company expects the demand for air travel to gradually recover and that the Company will reach its pre-COVID-19 production levels and profitability in 2024. The Company is nonetheless poised to ramp-up faster if demand picks up faster than currently anticipated and believes that its current fleet, with the associated relative low ownership costs, offers a unique opportunity to respond quickly to a rapid market recovery.

The conservative assumptions and plans discussed herein are detailed in the IM. It shall be noted that the Company's ramp-up plan and associated liquidity projections do not assume a cash injection from either the Offering being enlarged to ISK 23,000 million from ISK 20,000 million or Warrants being exercised. In case both aforementioned would materialize it would increase the share capital of the Company by ISK 8,750 million over the next two years. The Company's plans are and will continue to be subject to extreme uncertainty. Material changes to the operations, financial standing or prospects of the Company will be publicly announced as and when they arise in line with its disclosure obligations as a listed company.

The long-term financial targets of the Company, as seen on page 53 in the IM, are EBIT over 8%, an equity ratio of between 20-25% and a liquidity buffer equivalent to 3 months fixed operational costs with a USD 60 million minimum liquidity.

4.6 Regulatory Disclosure

The Company's shares are traded on Nasdaq Iceland's regulated market and the Company is therefore subject to disclosure under the Rules of the Exchange and applicable laws.

This summary is prepared in accordance with section 13 of the previously mentioned Annex 3 (registration document for secondary issuances of equity securities) and presents disclosure of information under regulation (EU) No. 596/2014.

INFORMATION DISCLOSED ACCORDING TO THE RULES OF THE EXCHANGE			
Date	**Title**	**Description**	**Cross references in this Share Registration Document**
1 April 2019	Icelandair leases two Boeing 767 aircraft until end of September	Disclosure on leasing agreement regarding two Boeing aircraft for summer schedule 2019.	3.3.3
10 April 2019	Icelandair flight schedule changes	Disclosure on the impact of the suspension of Boeing 737 MAX aircraft.	3.3.3
8 May 2019	Partial Redemption of Bonds with ISIN NO0010776982	Notice that the Company is going to redeem USD 50,666,667 of its outstanding Bonds on 27 May 2019.	N/A
23 May 2019	Further changes to Icelandair's flight schedule due to suspension of Boeing 737 MAX – number of passengers to Iceland continues to increase.	Disclosure on the Company fleet for summer 2019.	3.3.3
5 June 2019	Redemption of Bonds with ISIN NO0010776982	Notice is that the Company is going to redeem all of its outstanding Bonds on 28 June 2019.	N/A
10 July 2019	Changes to Icelandair's flight schedule through October due to suspension of Boeing 737 MAX	Further disclosure on the impact of the suspension of Boeing 737 MAX aircraft and changes to the Company's service.	3.3.3
16 August 2019	Changes to Icelandair's flight schedule throughout the year due to the suspension of Boeing 737 MAX aircraft	Disclosure from the Company regarding an updated flight schedule until the end of December 2019 because of Boeing 737 MAX and other market developments.	3.3.3
20 September 2019	Financial effects of Boeing 737-MAX Suspension	Disclosure regarding an agreement with Boeing regarding Compensation which covers fraction of the Company's total loss due to the suspension of the Boeing 737-MAX aircraft.	3.3.3
30 September 2019	Icelandair discontinues flights to San Francisco and Kansas City	Disclosure on the Company's amended flight schedule.	3.2
4 October 2019	Collective-Bargaining Agreement with FIA approved	Disclosure regarding the members of The Icelandic Airline Pilots Association (FIA) approved the new Collective-Bargaining Agreement with Icelandair Group hf. and Icelandair ehf. The agreement is valid until 30 September 2020.	1.2.6
24 October 2019	Icelandair adjusts its flight schedule through February 2020 due to suspension of the Boeing 737 MAX	Disclosure from the Company regarding removal of the Boeing 737 MAX from its flight schedule in January and February 2020. This decision has minimum impact on flights that have already been scheduled for this period.	3.3 & 3.3.3

28 October 2019	EBIT guidance for the full year 2019 revised upwards	Information that the Company revised upwards the EBITD guidance to the range of negative USD 35-55 million for 2019	N/A
28 November 2019	Continued focus on the tourist market in Iceland	Information on the Company's flight schedule for 2020	3.3
5 December 2019	Icelandair enters into a secured USD 35 million loan agreement	Disclosure from the Company regarding a USD 35 million loan agreement with CIT Bank.	N/A
17 December 2019	Icelandair Group does not expect Boeing 737 MAX back into service until May 2020	Disclosure regarding the Company's flight schedule for 2020	3.3 & 3.3.3
30 December 2019	Icelandair enters into a secured USD 30 million loan agreement	Information that the Company entered into a secured USD 30 million loan agreement with CIT Bank	N/A
31 December 2019	Collective-Bargaining Agreement with FVFI approved	Disclosure regarding agreement between the members of The Icelandic Aircraft Mechanics Association (FVFI) and the Company as FVFIA approved the new Collective-Bargaining Agreement	1.2.6
22 January 2020	Icelandair does not expect the Boeing MAX in summer 2020 – minimal impact on flight schedule	Information on the Company's flight schedule for 2020. The Company does not expect to have the MAX in operation during the high season of next summer	3.3 & 3.3.3
1 March 2020	Icelandair Group hf.: COVID-19 effects	Information on the COVID-19 virus and possible impact on the Company's operations. The Company annulled its guidance provided to the market on 6 February 2020	4.2.1
10 March 2020	Icelandair Group hf.: Covid-19 effects	Information on the COVID-19 virus and possible impact on the Company's operations	4.2.1
12 March 2020	Icelandair Group hf.: U.S. Travel Restrictions	Information on the COVID-19 virus and possible impact on the Company's operations. The U.S Government issued a travel restriction, for 30 days effective from Saturday 14 March 2020.	4.2.1
12 March 2020	Icelandair Group hf.: Notification regarding Market Making Agreements	Notification regarding market making Agreements from Íslandsbanki and Landsbanki	N/A
15 March 2020	Icelandair Group hf.: COVID-19 and Travel Restrictions	Information on the COVID-19 virus and possible impact on the Company's operations and further information on the uncertainty for the outlook of summer season 2020	4.2.1
23 March 2020	Icelandair Group hf: COVID-19 mitigating actions	Information on the COVID-19 virus and mitigating actions taken by the Company to diminish cash outflow across all operations including changes in employment.	4.2.1
3 April 2019	PAR Capital Management enters into binding agreement to subscribe to a 11.5% stake in Icelandair Group	Information that the Company had entered into an agreement with PAR Capital Management. Agreement subject to the Company's Shareholders' Meeting Agreeing.	N/A
6 April 2020	Icelandair Group hf.: Steps taken to secure long-term capital structure	Information on the COVID-19 virus effects of demand for international travel and flight schedule. The Company engaged Íslandsbanki, Kvika banki and Landsbanki as advisors to initiate the process of strengthening the long-term capital structure of the company.	4.2.2

17 April 2020	Icelandair Group hf.; Financial Restructuring of Icelandair Group	Disclosure that the Company intends to issue new shares and the reasoning for the share offering is to ensure the Company's long-term competitiveness.	4.2.2
22 April 2020	Icelandair Group: Further measures in response to the COVID-19 pandemic	Information on the COVID-19 virus and possible impact on the Company's operations.	4.2.1
24 April 2020	Icelandair Group: The Company signs an agreement with DB Schenker on cargo flights between China and Europe	Disclosure that the Company and DB Schenker have signed an agreement regarding a minimum of 45 cargo flight between Shanghai in China and Munich in Germany, transporting medical equipment for health care providers across Europe. Additional flights from Shanghai to Chicago, USA, through Iceland are also part of the agreement.	N/A
28 April 2020	Icelandair Group: Reduction in the number of employees and restructuring	Disclosure on the Company's decisive measures to diminish cash outflow. Salary cost being the largest single cost item the Company terminated the employment of around two thousand employees.	4.2.1
30 April 2020	Icelandair Group hf.: The Financial Restructuring of Icelandair Group	Disclosure that the Board of Directors of the Company submitted a proposal to the shareholders of the Company, that would enable the Board to increase the share capital of the Company by up to 30,000 million shares.	4.2.2
10 May 2020	Agreement signed with the Union of Icelandic Aircraft Maintenance Technicians (FVFI)	Disclosure on an amended collective-bargaining agreement for period 1 January 2021 to 31 December 2025.	1.2.6 & 4.2.3
15 May 2020	Agreement reached between Icelandair and the Icelandic Pilots Association (FIA)	Disclosure on a new collective-bargaining agreement which is valid until 30 September 2025.	1.2.6
20 May 2020	Status of union discussions	Disclosure that the Company has made agreements with the Icelandic Airline Pilots Association and the Association of the Icelandic Aircraft Maintenance Technicians. It is unlikely that the discussions with the Icelandic Cabin Crew Association will return a result and the Company is evaluating all possible options before deciding on next steps.	4.2.3
20 May 2020	Icelandair Group hf.: Collective Bargaining Agreement with FVFI approved	Disclosure that the Union of Icelandic Aircraft Maintenance Technicians have approved the amended collective bargaining agreement from 1 January 2021 to 31 December 2025	4.2.3
22 May 2020	Collective Bargaining Agreement with FIA approved	Disclosure that the Icelandic Airline Pilots Association (FIA) have approved the new collective bargaining agreement with Icelandair Group. The agreement has therefore become effective and is valid until 31 September 2025.	4.2.3
15 June 2020	Icelandair Group's Financial Restructuring - Update	Disclosure that discussions with stakeholders and the Icelandic Government are ongoing. The indicative timeline was revised to 29 June 2020.	4.2.2

25 June 2020	Agreement reached between Icelandair and the Icelandic Cabin Crew Association	Disclosure that Icelandair and the Icelandic Cabin Crew Association (FFI) signed a new collective-bargaining agreement which is valid until 30 September 2025. The agreement will be presented to FFI members who will vote on the agreement.	4.2.3
29 June 2020	Icelandair Group hf.: Status of the financial restructuring process	Disclosure that the Company has achieved positive progress with many of its shareholders. However, negotiations with certain pivotal counterparties have not been concluded.	4.2.2
8 July 2020	Icelandair Group hf.: Collective Bargaining Agreement with FFI declined	Disclosure that the members of the Icelandic Cabin Crew Association (FFI) have declined the new collective bargaining agreement with Icelandair in a voting process. The Company will evaluate its options.	4.2.3
17 July 2020	Icelandair Group hf.: Negotiations with the Icelandic Cabin Crew Association (FFI) ended without a conclusion	Disclosure that the negotiations with the Icelandic Cabin Crew Association (FFI) have come to an end without a conclusion. Icelandair will permanently terminate the employment of its cabin crew and Icelandair's pilots will temporarily take over responsibility for onboard safety on 20 July.	4.2.3
19 July 2020	Icelandair Group hf.: Agreement reached between Icelandair and the Icelandic Cabin Crew Association (FFI)	Disclosure that Icelandair and the Icelandic Cabin Crew Association (FFI) have signed a new collective-bargaining agreement. FFI members will vote on the agreement and a conclusion from the vote is expected on 27 July 2020.	4.2.3
27 July 2020	Collective Bargaining Agreement with FFI approved	Disclosure that the members of the Icelandic Cabin Crew Association (FFI) have approved the new collective bargaining agreement with Icelandair. The agreement has therefore become effective and is valid until 30 September 2025.	4.2.3
1 August 2020	Icelandair Group hf.: Status of Financial Restructuring	Disclosure that negotiations with the Company's stakeholders are in the final stages. Fully documented agreements have been completed with the majority of creditors. Negotiations with the remaining creditors are at an advanced stage and final agreements are expected to be fully documented next week.	4.2.2
12 August 2020	Icelandair Group hf.: Agreements with all key stakeholders reached	Disclosure that the Company has completed agreements with all of its creditors and reached a final settlement with Boeing regarding the impact of the suspension of the Boeing 737 MAX aircraft.	3.3.3, 4.2.2 & 4.3.2
17 August 2020	Icelandair Group hf.: Upcoming Offering of Shares	Disclosure that the Company will call a new shareholders' meeting to vote on a share increase of ISK 20 billion in nominal value which the board of directors will be authorized to increase the share offering by up to 3 billion. Additionally, it is expected that a proposal will be submitted to issue warrants amounting to	N/A

		25% of the nominal value of the total shares issued which could be exercised for up to two years.	
18 August 2020	Icelandair Group hf.: A Government Guarantee for a Credit Facility Approved by the Icelandic Government	Disclosure that the Icelandic Government has approved to provide a government guaranteed credit facility to the Company for a credit facility amounting to up to USD 120 million. The guarantee will be subject to terms for the guarantee and the credit facility being agreed upon between the parties, the approval of the Icelandic Parliament and a successful offering of shares in Icelandair Group.	4.1
18 August 2020	Icelandair Group hf.: Information Memorandum regarding upcoming offering of shares	Disclosure that the Company has published an Information Memorandum regarding upcoming offering of shares.	2.6
1 September 2020	Icelandair Group hf.: Underwriting Agreement reached with Íslandsbanki and Landsbankinn	Disclosure that the Company has reached an underwriting agreement for a total of up to ISK 6,000 million with Íslandsbanki and Landsbankinn. The agreement is conditioned on a minimum participation by investors in the Offering of ISK 14,000 million.	4.1
4 September 2020	Icelandair Group hf.: Updated Information Memorandum	Disclosure that the Company has published an updated Information Memorandum regarding upcoming offering of shares.	2.6
4 September 2020	Icelandair Group hf.: The Icelandic Parliament approves government guarantee for a credit facility	Disclosure that the Icelandic Parliament approved a 90% government guarantee for a credit facility for up to USD 120m million to the Company.	4.1
ACQUISITION OR DISPOSAL OF THE ISSUER'S OWN SHARES			
Date	**Title**	**Description**	**Cross references in this Share Registration Document**
3 April 2019	Negotiations regarding sale of Icelandair Hotels	Disclosure that the Company entered into a final negotiation with a preferred bidder in sale process of Icelandair Hotels	4.2.4
4 June 2019	Changes at Iceland Travel	Disclosure regarding new structure and new Managing director of Iceland Travel	4.2.4 & 3.2.1
1 July 2019	Documentation in final stages regarding the sale of Icelandair Hotels.	Disclosure regarding the sale process of Icelandair Hotels and that a share purchase agreement will be signed before 16 July 2019.	4.2.4
13 July 2019	Berjaya purchases Icelandair Hotels and related real estate	Disclosure regarding a share purchase agreement with Berjaya Property Ireland, whereby Berjaya acquired 75% share in Icelandair Hotels	4.2.4
15 July 2019	Further information regarding the sale of Icelandair Hotels and related real estate	Disclosure on put and call option agreement with Berjaya and more detailed disclosure on the share purchase agreement.	4.2.4
20 December 2019	The sale of Icelandair Hotels	Disclosure regarding the key conditions of the share purchase agreement and that they have been fulfilled, among them the refinancing of the Company, as Icelandair Hotels have today entered into an agreement with	4.2.4

		Arion Bank for borrowings amounting to ISK 8.000 million (USD 65 million).	
25 February 2020	The sale of Icelandair Hotels	Information on the sale of Icelandair Hotels. Where all conditions of the Agreement between the Company and the purchaser have been fulfilled. The purchase price of the 75% share from the Company amounts to USD 55,3 million cash payment	4.2.4
31 March 2020	Icelandair Group hf.: Integration of Air Iceland Connect and Icelandair	Notification to investors that a decision has been made to integrate the operations of Air Iceland Connect into the operations of Icelandair	4.2.5
3 April 2020	Icelandair Group hf.: Completion of the sale of Icelandair Hotels to Berjaya	Notification to investors that the sale of Icelandair Hotels has been completed and due to COVID-19 virus the payment has been reduced and amounts to USD 45,3 million	4.2.4
NOTICE AND DECISIONS REGARDING GENERAL MEETINGS			
Date	**Title**	**Description**	**Cross references in this Share Registration Document**
24 April 2019	Results of Shareholders' Meeting	Disclosure of the minutes from the Shareholders' meeting whereas, amongst others, the Board approved the PAR agreement.	N/A
7 February 2020	The Nomination Committee's Report	The Company's nomination Committee proposed candidates to be elected to the Board of Directors of the Company	6.1
28 February 2020	Icelandair Group hf.: Candidates for the Board of Directors of Icelandair Group at the AGM on 6 March 2020	Information on candidates that declared candidacy to the Board of Directors of the Company	6.1
6 March 2020	Icelandair Group hf.: Results of the Annual General Meeting	Disclosure of the minutes from the Shareholders' meeting whereas two new board members were appointed	6.1
1 May 2020	Icelandair Group hf.: Shareholders' Meeting on 22 May 2020	Information on the agenda and proposals for the shareholders meetings that shall be held on 22 May 2020	N/A
22 May 2020	Results of Shareholders' Meeting	Disclosure of the minutes from the Shareholders' meeting whereas a proposal to grant the Board authorization to increase the Company's share capital by up to ISK 30,000,000,000 in nominal terms	5.2.3
18 August 2020	Icelandair Group hf.: Shareholders' Meeting on 9 September 2020	Information on the agenda and proposals for the shareholders meetings that shall be held on 9 September 2020.	5.2.3
2 September 2020	Icelandair Group hf.: Shareholders' Meeting on 9 September 2020 – Final Agenda and Proposals	Information on the agenda and proposals for the shareholders meetings that shall be held on 9 September 2020.	5.2.3
MAJOR SHAREHOLDER ANNOUNCEMENTS			
Date	**Title**	**Description**	**Cross references in this Share Registration Document**
8 May 2019	Notification of the acquisition of major proportion of voting rights	Disclosure that PAR Investment Partners have reached the 10% threshold and hold 12,42% equity share in the Company.	N/A

FINANCIAL STATEMENT RELEASE & FINANCIAL CALANDER			
Date	**Title**	**Description**	**Cross references in this Share Registration Document**
6 May 2019	Presentation of Q1 2019 financial results	Publication of the Q1 2019 financial results.	N/A
1 August 2019	Improved Results Without the Impact of Max Aircraft Suspension	Statement from the CEO of the Company on the past six months.	N/A
2 August 2019	Presentation of Q2 2019 financial results	Publication of the Q2 2019 financial results.	N/A
1 November 2019	Continued Operational Improvements – Q3 Net Profit USD 61 Million	Publication of Q3 2019 financial report	N/A
2 January 2020	Financial Calendar 2020	Publication of the Financial Calendar for year 2020	N/A
6 February 2020	Improved performance in Q4 2019	Publication of Q4 2019 financial report	N/A
4 May 2020	Strong start of the year overshadowed by COVID-19	Publication of the Q1 2020 financial results.	N/A
22 July 2020	Icelandair Group's Preliminary Results for Q2 2020	Preliminary results of the second quarter of 2020.	N/A
27 July 2020	Passenger operations severely impacted by COVID-19	Publication of the Q2 2020 financial results.	4.4

05 SHARE CAPITAL AND SHAREHOLDERS

5.1 Share Capital

As of the date of this Share Registration Document, the nominal value of the share capital of Icelandair Group is ISK 5,437,660,653 divided into an equal number of Shares with a nominal value of one ISK each.

In accordance with Article 55 of the Public Companies Act the Company is authorised to own up to 10.0% of its own share capital. The authorisation of a shareholders' meeting to the Board of Directors is needed for the Company to acquire treasury Shares. Such an authorisation, if issued, can only be granted for a period of eighteen months at a time. The Company's AGM voted to authorise the Company to buy back up to 10% of its own Shares in the eighteen-month period following the date of the AGM which was 6 March 2020. No formal buy-back programme has been established as of the date of the Share Registration Document.

5.2 Shareholders

The 20 largest shareholders, shown in Item 13 below, are listed as at close of business on 7 September 2020. At close of business on 7 September 2020 there were 4,458 shareholders in Icelandair Group.

The Issuer declares that to the best of its knowledge the below listed are the rightful owners of the Company and that the Issuer is not aware that it is, whether directly or indirectly, under the control or influence of a party or parties other than those listed below.

The Company is not aware of any arrangements being in place that may at a subsequent date result in change of control of the Company.

Investors are advised to familiarise themselves with possible conflicts of interest regarding the Issuer in Chapters 2.1 *Potential Conflict Of Interest* and 6.3 *Statements And Potential Conflict of Interest* of this Share Registration Document. Chapters 6.1 *Members Of The Board of Directors* and 6.2. *Executive Committee* further contains information on the shareholdings of the members of the Board of Directors as well as Executive Committee members and their related parties as relevant.

Item 13. 20 largest shareholders at close of business 7 September 2020

#	Owner	Total Capital	%
1	Lífeyrissjóður verslunarmanna	642,361,239	11.8%
2	Par Investment Partners L.P. Boston	570,259,020	10.5%
3	Gildi - lífeyrissjóður	393,761,301	7.2%
4	Birta lífeyrissjóður	384,553,804	7.1%
5	Lífeyrissj.starfsm.rík. A-deild	339,161,000	6.2%
6	Stefnir - ÍS 15	293,566,144	5.4%
7	Stefnir - ÍS 5	280,920,532	5.2%
8	Frjálsi lífeyrissjóðurinn	154,480,294	2.8%
9	Lífeyrissj.starfsm.rík. B-deild	109,514,500	2.0%
10	Landsbréf - Úrvalsbréf	108,836,367	2.0%
11	Brú Lífeyrissjóður starfs sveit	96,136,406	1.8%
12	Sólvöllur ehf.	92,338,900	1.7%
13	Stefnir - Samval	92,000,000	1.7%
14	Almenni lífeyrissjóðurinn	83,378,324	1.5%
15	Stapi lífeyrissjóður	73,771,923	1.4%
16	Vænting ehf.	72,000,000	1.3%
17	Högni Pétur Sigurðsson	66,707,186	1.2%
18	Nautica ehf	64,993,679	1.2%
19	Zukunft ehf.	61,818,514	1.1%
20	Söfnunarsjóður lífeyrisréttinda	48,158,780	0.9%
Total of 20 largest shareholders		**4,028,717,913**	**74.1%**
Other shareholders		**1,408,942,740**	**25.9%**
TOTAL Share Capital		**5,437,660,653**	**100%**

5.2.1 Shareholders' rights and obligations

The Shares are all in one class and equal in all respects. Shareholders' rights are subject to the Articles of Association and the relevant applicable laws at any given time. No special rights or privileges are attached to the Shares and all Shares are freely transferable. Shareholders will not be subject to redemption of their Shares unless stipulated by law. As the Shares are electronically registered, changes in ownership of the Shares are governed by the provisions of Act no. 7/2020 on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments and any subsequent rules based thereon. For information on all other rights reference is made to the Articles of Association incorporated in this Share Registration Document by references well as to the Public Companies Act.

Disputes arising regarding Shares shall be settled before the Reykjavik District Court as per Act No. 91/1991 on Civil Procedure.

5.2.2 Voting rights

Each Share carries one vote at shareholders' meetings, where matters are decided by simple majority unless otherwise prescribed by the Articles of Association or law. No voting rights are attached to treasury Shares or Shares held by the Issuer's subsidiaries.

5.2.3 Increase / decrease of share capital

The increase of share capital can exclusively be decided by a shareholders' meeting and requires the same number of votes as do amendments to the Articles of Association. If share capital is increased, existing shareholders enjoy pre-emptive rights to new Shares in proportion to their existing holdings, as prescribed by law at each given time. That notwithstanding a shareholders' meeting may resolve to waive such pre-emptive rights. Such a resolution can only be passed by the same proportion of votes needed to amend the Company's Articles of Association. If a shareholder does not exercise his or her pre-emptive rights in full, other shareholders are entitled to increase their subscription rights. A shareholders' meeting's resolution is also needed to lower share capital and requires the same number of votes as do amendments to the Articles of Association.

In Article 15 of the Articles of Association, the Board of Directors had an authorization to increase the Company's share capital by up to ISK 30,000,000,000 in nominal terms, by issuing new shares, all at once or in separate steps. This authorization was valid until 1 September 2020.

On 18 August 2020, the Board of Directors called a shareholders' meeting seeking a renewal of the authorization to increase share capital up to ISK 23,000,000,000 by issuing shares in relation to public share offering for a minimum of ISK 20,000,000,000. Furthermore, the Board of Directors has issued a proposal that will grant the Board of Directors authorization to issue warrants relating to the subscriptions in the upcoming public offering. For more details on that matter reference is made to Chapter 5.2 *Resolution to Issue the New Shares* in the Company's Securities Note dated 8 September 2020.

5.2.4 Amendments to the Articles of Association

The Articles of Association can only be amended at lawful shareholders' meetings. Amendments are only valid if voted for by at least 2/3 of the total votes cast and have the support of shareholders controlling at least 2/3 of the share capital represented at the meeting, providing always that no other proportion of votes is required by the Articles of Association or statutory law. Amendments to articles stipulating voting rights and equal rights of shareholders demand the support of all shareholders as per Article 94 of the Public Companies Act.

5.2.5 Dividends

The Board of Directors of Icelandair Group have approved the following dividend policy: "The Company's goal is to pay 20-40% of each year's net profit in dividends. Final annual dividend payments will be based on the financial position of the Company, operating capital requirements and market conditions". When forming their proposal, the Board of Directors takes into account and considers the risk policy in place, market conditions, the Company's liquidity needs, financial covenants, approved capex plans and other possible factors that might limit payments to shareholders at any given time. These considerations might affect the proposed amount of dividend and even lead to no dividend being proposed. A dividend was paid for fiscal years 2015, 2016 and 2017. No dividend was paid for fiscal year 2018.

On 6 March 2020, the AGM approved the Board of Directors proposal that no dividend payments to shareholders should be paid in year 2020 for the financial year 2019.

All shareholders hold equal rights to dividend payments. Dividend shall be decided at the Annual General Meeting ("AGM") to be held before the end of April each year.

The Company's share register is held in accordance with the provisions of the Act no. 7/2020 on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments and any subsequent rules based thereon and shall be regarded as sufficient proof of ownership over shares in the Company. Dividend payments are sent to the Shareholder which is at each time registered as an owner of the relevant shares in the Company's share register. Shareholders are responsible for making sure that their residence is correctly entered into the Company's share registry.

There are no provisions in the Company's articles of association regarding the expiration of the right to dividends that have not been collected. As a result, such rights lapse after four years according to Act No. 150/2007 on the Limitation Periods of Claims.

In deciding the amount of dividend to be paid, the Issuer is bound by the provisions of the Public Companies Act. According to Article 99 (1) of said Act companies are only allowed to allocate as dividend, profits according to the previous fiscal year's annual accounts, profits that have been carried over from prior years and available funds from which unsettled losses and agreed or lawfully required reserves have been deducted.

The Company is bound by covenants concerning dividend payments that loan agreements and other agreements may contain at any given time. Dividend payments will not be paid during the time the government guaranteed credit facility is in place, neither during the drawdown period, or if drawn on, while it is being amortized.

The declaration and payment of future dividends will be determined by the Board of Directors and shareholders. There can be no assurance that the Company will pay dividends in the future.

06 BOARD OF DIRECTORS AND THE EXECUTIVE COMMITTEE

6.1 Members of The Board of Directors

The Board of Directors consists of five members elected at the AGM for a term of one year. Those who intend to stand for election to the Board of Directors must inform the Board of Directors in writing of their intention at least seven days before the Annual General Meeting, or extraordinary shareholders' meeting at which elections are scheduled. Only those who have informed the Board of Directors of their candidacy are eligible.

The following were voted to serve on the Board of Directors at the last AGM, held on 6 March 2020, until the next AGM which is to take place no later than 31 August 2021.

Úlfar Steindórsson, Chairman, was born in 1956 and is the CEO and Chairman of Toyota in Iceland. He was the CEO of Primex ehf. in Siglufjordur from 2002-2004, and the CEO of the New Business Venture Fund from 1999-2002. Úlfar has held various board positions in the Icelandic business environment in the past years. Úlfar holds a Cand.Oecon from the University of Iceland and an MBA from Virginia Commonwealth University.

Úlfar joined the Board of Directors on 15 September 2010.

Current positions as member of the Board or management, owner or co-owner:

Toyota á Íslandi ehf. (chairman of the board), Toyota Kauptúni ehf. (chairman of the board), UK fjárfestingar ehf. (chairman of the board), Bílaútleigan ehf. (chairman of the board), Okkar bílaleiga ehf. (chairman of the board), Mótormax ehf. (chairman of the board), Skorri ehf. (chairman of the board), Kraftvélar ehf. (chairman of the board), Kraftvélaleigan ehf. (chairman of the board), Keila ehf. (board member), Jú ehf. (board member), MyCar ehf. (board member), Fagkaup ehf. (board member).

Member of the Board or management, owner or co-owner in the past five years:

S. Guðjónsson ehf. (board member), Johan Rönning ehf. (board member), Áltak ehf. (board member), Krókksslóð ehf. (board member), BH eignarhaldsfélag ehf. (board member), Bifreiðainnflutningur ehf. (board member).

Guðmundur Hafsteinsson, Board Member, was born in 1975 and is the founder of computer software company Stealth Co. Guðmundur used to lead product development for Google Assistant at Google. He joined Google in 2014 after the Merger of Google and Emu, a chat based virtual assistant start-up he founded in 2012. Prior to the founding of Emu, he was VP Product at Siri, and stayed on after the acquisition by Apple through the launch of Siri on iPhone 4S. Prior to Siri/Apple, Guðmundur was a Senior Product Manager at Google, where he managed the initial launches of Google Maps for mobiles and Google Voice Search. Guðmundur holds an MBA degree from MIT and a B.Sc. degree in Electrical and Computer Engineering from the University of Iceland.

Guðmundur joined the Board of Directors on 8 March 2018.

Current positions as member of the Board or management, owner or co-owner:

Milo ehf. (board member), DT42 ehf. (board member), Key Me (Advisor), Icelandic Startup – Klak Innovit ehf. (chairman of the board), Vísindagarðar Háskóla Íslands ehf. (board member).

Member of the Board or management, owner or co-owner in the past five years:

Key Me (board member), Meniga ehf. (board member), EMU (founder and senior manager).

Svafa Grönfeldt, Board Member, was born in 1965 and is a founding member of MIT's innovation accelerator DesignX, and a co-founder of the MET fund, a Cambridge based seed investment fund. Svafa is a member of the board of directors at Össur since 2008. Previous positions include Chief Organizational Development Officer of Alvogen, President of Reykjavik University and Deputy to the CEO of Actavis Group. Svafa holds a PhD in Industrial Relations from London School of Economics.

Svafa joined the Board of Directors on 8 March 2019.

Current positions as member of the Board or management, owner or co-owner:

Össur hf. (board member), Origo hf. (board member), MIT Innovation Accelerator (chairman of the board).

Member of the Board or management, owner or co-owner in the past five years:

Alvogen hf. (Executive Vice President).

John F. Thomas, Board Member, was born in 1959, and is a Senior Advisor to the management consultancy McKinsey & Co., the aviation infrastructure firm Nieuport Aviation Infrastructure Partners GP and the tourism technology firm Plusgrade. Moreover, he is currently owner and CEO of Waltzing Matilda Aviation LLC, a jet charter operation based in Boston. In 2016-2017, John was Group Executive at Virgin Australia Airlines where he led a financial turnaround as CEO of an AU$ 4.0bn (appr. USD 2.8bn) full-service carrier with over 6,000 employees and prior to that Managing Director/Senior Partner at L.E.K. Consulting where he created and led the Global Aviation Practice for 16 years. John holds an MBA degree from Macquarie University Graduate School of Business and a Bachelor of Commerce degreed from the University of New South Wales.

John joined the Board of Directors on 6 March 2020.

Current positions as member of the Board or management, owner or co-owner:

Skyservice Investments Inc. (board member), Waltzing Mathilda Aviations (CEO).

Member of the Board or management, owner or co-owner in the past five years:

PASSUR Aerospace, Inc. (executive chairman of the board), Nieuport Aviation Infrastructure Partners GP (member of Advisory board), Virgin Australia Airlines (Group Executive), L.E.K. Consulting (Managing Director/Senior Partner)

Nina Jonsson, Board Member, was born in 1967, and is currently a Senior Advisor at aviation consultancy Plane View Partners and a board member at aviation technology firm FLYHT. Between 2015 and 2017, she held the role of Senior Vice President Group Fleet at Air France-KLM Group where she was responsible for group-wide fleet strategy, aircraft sourcing, leasing and sales. Previously, Nina held a number of other executive positions within the aviation industry including Fleet Management Officer at the Bristow Group (2012-15), Director Fleet Planning at United Airlines (2006-2011) and Director Fleet Management at US Airways (2002-2005). Nina holds an MBA degree from Rensselaer Polytechic Institute and a B.Sc. degree in Air Transport Management from the University of New Haven.

Nina joined the Board of Directors on 6 March 2020.

Current positions as member of the Board or management, owner or co-owner:

FLYHT Aerospace Solutions Ltd. (board member), Plane View Partners (Senior Advisor), Viking Fleet Advisors LLC. (Owner/CEO).

Member of the Board or management, owner or co-owner in the past five years:

Air France- KLM Group (Senior Vice President Group Fleet), Bristow Group (Fleet Manager Officer).

All Members of the Board of Directors are independent from the Company.

6.1.1 Compliance

The Board of Directors has appointed Ari Guðjónsson, the Company's general counsel as the Company's Compliance Officer. The Board has further appointed Eva Sóley Guðbjörnsdóttir, the Company's Chief Financial Officer, as the alternate Compliance Officer. The role of the Compliance Officer includes overseeing that the rules on treatment of insider information and insider trading are complied with within the Company.

6.2 Executive Committee

Bogi Nils Bogason, *President & CEO Icelandair Group*, started his career within Icelandair Group in October 2008 as a CFO. He was the CFO of Askar Capital from January 2007 until he joined Icelandair Group and the CFO of Icelandic Group from 2004-2006. Bogi Nils served as an auditor and partner at KPMG in Iceland during the years from 1993-2004.

Bogi Nils holds a Cand Oecon degree in Business Administration from the University of Iceland and is a state authorized public accountant.

Current positions as member of the Board or management, owner or co-owner:

The Iceland Chamber of Commerce (board member), Möskvi ehf. (co-owner, board member), SA Confederation of Icelandic Enterprise (board member), Stekkatangi ehf. (board member).

Member of the Board or management, owner or co-owner in the past five years:

EFIA, Pilot’s Pension Fund (board member) and other with the Issuer.

Árni Hermannsson, *Chief Aircraft Leasing and Consulting Officer*, appointed Managing Director of Loftleidir Icelandic in January 2018 after having served as Chief Financial Officer of the Company since 2002. Prior to that he was Chief Financial Officer of the Icelandic technology companies ANZA and Alit.

Árni holds a Cand. Oecon. Degree in Business Administration from the University of Iceland.

Current positions as member of the Board or management, owner or co-owner:

None other than with the Issuer.

Member of the Board or management, owner or co-owner in the past five years:

None other than with the Issuer.

Birna Ósk Einarsdóttir, *Chief Commercial Officer*, was appointed Chief Business Development and Strategy Officer in January 2018. She served as Executive Vice-President of Marketing and Business Development for Landsvirkjun from April 2017. She worked as an executive for the Telecommunications company Síminn from 2011, most recently as EVP of Sales & Services. Birna worked for Síminn from 2001, starting in public relations and HR. She led Síminn’s Project Management Office in 2006 to 2010 and concurrently managed market affairs in 2009 to 2010 until she accepted the post of EVP. Birna has served on the board of directors of Skeljungur hf. since 2015 and a nonprofit organization Almannarómur since 2019. She served on the board of directors of Farsímagreiðslur ehf., a mobile payment service provider, from 2012 to 2015, on the board of directors of Gildi Pension Fund from 2014 to 2015 and on the board of Já hf. from 2017-2019.

Birna holds a degree in business from the University of Reykjavik and an M.Sc. degree in Management and Strategic Planning from the University of Iceland; she has further completed a programme of AMP studies for managers at the IESE Business School in Barcelona.

Current positions as member of the Board or management, owner or co-owner:

Skeljungur hf. (board member), Almannarómur (board member) and other with the Issuer.

Member of the Board or management, owner or co-owner in the past five years:

Landsvirkjun hf. (senior manager), Síminn hf. (senior manager), Radíomiðlun ehf. (board member), Sensa hf. (board member), Gildi pension fund (board member), Já hf (board member).

Elísabet Helgadóttir, *Chief Human Resources Officer*, joined Icelandair Group in January 2018. She worked in human resource management at Íslandsbanki since 2007 and held the role of head of career development from 2012 - 2017. Her tasks at Íslandsbanki included supervision of all staff education and training, management training, executive coaching and performance management. From 2000 to 2007, she worked for Capacent Gallup on research and consultancy.

Elísabet holds a B.A. degree in psychology from the University of Iceland and a master's degree in human resource management from the EADA Business School in Barcelona.

Current positions as member of the Board or management, owner or co-owner:

Stekkatangi ehf. (board member).

Member of the Board or management, owner or co-owner in the past five years:

None other.

Eva Sóley Guðbjörnsdóttir, *Chief Financial Officer*, joined Icelandair Group in February 2019. She worked as the Managing Director of Finance and Operations at Advania in Iceland from 2015 and then as the Managing Director of Service and Operations of the Company from May 2018. Prior to that she was Vice President in Corporate Finance at Össur. Eva Soley has also worked as an independent consultant and investor but started her career within the financial services industry and worked at Kaupthing bank for many years in different roles, the last one being the Chief Financial Officer.

Eva Soley holds a Master of Science Degree in Financial Engineering and a Bachelor of Science Degree in Engineering Management Systems, with a minor in Economics from Columbia University in New York.

Current positions as member of the Board or management, owner or co-owner:

Vísindagarðar Háskóla Íslands ehf. (board member), Sólþing ehf. (co-owner, board member), EFÍA (board member), Þórsþing ehf. (co-owner, board member), Íscap ehf. (co-owner, board member), Greiðslumiðlun Íslands ehf. (board member), Mótus ehf. (board member) and other with the Issuer.

Member of the Board or management, owner or co-owner in the past five years:

Advania Ísland ehf. (CFO), Advania Data Centers ehf. (board member), Advania Mobile Pay ehf. (board member), Embla Solutions ehf. (board member), Júpíter rekstrarfélag (board member), Skeljungur hf. (board member), Embla Solutions ehf. (board member) and other with the Issuer.

Gunnar Már Sigurfinnsson, *Chief Cargo and Logistics Officer,* was appointed Chief Commercial Officer Icelandair and Icelandair Cargo in January 2018. Prior to that he serves as Managing Director of Icelandair Cargo in May 2008 and as SVP of Sales and Marketing at

Icelandair from 2005. Gunnar Már became Director of Sales Planning and Control in 2000, and in 2001 he became General Manager of the Germany, Netherlands & Central Europe regions.

Gunnar Már holds a degree in Business Administration from the University of Iceland; he has further completed a programme of AMP studies for managers at the IESE Business School in Barcelona.

Current positions as member of the Board or management, owner or co-owner:

None other than with the Issuer.

Member of the Board or management, owner or co-owner in the past five years:

None other.

Jens Þórðarson, *Chief Operating Officer,* first joined Icelandair in 2006 as an assistant to Managing Director at Icelandair Technical Services. He became Director of Finance and Resources at Icelandair's Technical Division from 2007 to 2010, when he accepted a post as head of the Materials and Procurement department and later served as VP Technical Operations at Icelandair from October 2011. Jens was appointed Chief Operating Officer in January 2018.

Jens holds B.Sc. and master's degrees in industrial engineering from the University of Iceland.

Current positions as member of the Board or management, owner or co-owner:

Viðunandi ehf., (board member), Rhino Aviation ehf., (board member) and other with the Issuer.

Member of the Board or management, owner or co-owner in the past five years:

None other than with the Issuer.

Tómas Ingason, *Chief Business Development & Digital Officer*, joined Icelandair Group in March 2019. He was Chief Commercial Officer of WOW air in 2018 and Director of Rapid Digitization at Arion Bank between 2016 and 2018. Tómas was Chief Business Development Officer of WOW air in 2014. Prior to that he was Management Consultant at Bain & Company in Copenhagen and served as Director of Revenue Management and Pricing at Icelandair for several years.

Tómas holds an MBA Degree from MIT Sloan School of Management in Boston, MSc. Degree of Engineering in Logistics and Supply Chain Management and a BSc. Degree in Industrial Engineering from the University of Iceland.

Current positions as member of the Board or management, owner or co-owner:

Orka Náttúrunnar ohf. (board member), ON Power ohf. (board member), Ting ehf. (owner/board member).

Member of the Board or management, owner or co-owner in the past five years:

WOW air ehf. (senior manager), Parellel ehf. (board member), Reykjavík Duck Tours ehf. (owner/board member).

6.3 Statements and Potential Conflict of Interest

Attention is drawn to the following interests held by members of the Board of Directors and the Executive Committee:

- Úlfar Steindórsson, chairman of the Board of Directors of Icelandair Group is a co-owner of JÚ ehf. along with his spouse. JÚ ehf. holds a total of 12,240,000 Shares in the Company.
- Bogi Nils Bogason, Icelandair's Chief Executive Officer holds a total of 1,750,000 Shares in the Company.
- Eva Sóley Guðbjörnsdóttir, Icelandair's Chief Financial Officer is a co-owner of Sólþing ehf. along with her spouse. Sólþing ehf. holds 1,250,000 Shares in the Company.
- Tómas Ingason, Icelandair's Chief Information Officer holds a total of 57,405 Shares in the Company.
- Gunnar Már Sigurfinnsson, Icelandair's Chief Cargo and Logistics Officer holds a total of 111,111 Shares in the Company.
- Árni Hermannsson, Icelandair's Chief Aircraft Leasing and Consulting Officer holds a total of 100,000 Shares in the Company.
- Birna Ósk Einarsdóttir, Icelandair's Chief Commercial Officers holds a total of 150,000 Shares in the Company.

The Company is not aware of any other potential conflicts of interests between any duties of the members of the Board of Directors or the Executive Committee, and their private interests and/or other duties.

During the period of the last five years preceding the date of this Share Registration Document, no member of the Board of Directors or the Executive Committee has been convicted of a fraudulent offence nor have they been subject to any official public incrimination and/or sanctions by any statutory or regulatory authorities (including designated professional bodies) or ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

None of the members of the Board of Directors or the Executive Committee have, in the past five years, been associated with companies, in their capacity as a founder, director or senior manager, which have filed for bankruptcy or gone into receivership or liquidation.

No members of the Board of Directors or the Executive Committee have share options in the Company. No other amount has been set aside or accrued by the Issuer or its subsidiaries to provide pension, retirement or similar benefits agreed by the Company with any of its Board members or Executive Committee members.

Members of the Board of Directors are elected at shareholders' meetings. No members of the administrative, management or supervisory bodies have made any service contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment.

6.4 Related Party Transactions

Parties who have material influence on the Group's business as large shareholders of the Company, subsidiaries of the Company, associates of the Company, and members of the Board of Directors, CEO, CFO and other senior management within the Group are considered related to the Company. The related party definition is based on international accounting standard No. 24 (IAS24) *Related Party Disclosure*.

All intra-Group transactions are made at arm's length and on market terms and are eliminated upon consolidation of the Group's financial statements. They are therefore not included in the Company's consolidated balance sheet or results of operations.

Transactions have been carried out by Icelandair with related parties since 31 December 2019 amounting to a total in sales of ISK 5,719,387 and a total in sales of USD 24,244,094. Transactions have been carried out by Icelandair Cargo with related parties since 31 December 2019 amount to a total of ISK 3,733,155 in sales.[40]

6.5 Auditors

As stipulated in the Articles of Association the Company's fiscal year is the calendar year. Further it is stated that the Company's annual accounts shall be audited by an auditing company, and that an auditor or auditor company shall be elected at the AGM for a term of one year. The Company's auditing company and auditors shall be provided with any information requested in relation to its auditing services for the Company. The Company's annual accounts, report of the Board of Directors, and report of the auditor shall be available for review by the shareholders at the Company's headquarters no later than 21 days before the AGM. The qualifications and eligibility of auditors is subject to law.

The elected auditing firm of Icelandair Group for the 2020 fiscal year is KPMG. KPMG has been the Company's auditing firm since 1973. KPMG has not resigned, been removed from office or not been re-elected during the period covered by the historical financial information in this Share Registration Document. On behalf of KPMG Auður Þórisdóttir, Certified Public Accountant audited and endorsed the consolidated annual accounts of Icelandair Group hf. for the year 2018 and 2019. On behalf of KPMG, Auður Þórisdóttir, Certified Public Accountant and Hjördís Ýr Ólafsdóttir, Certified Public Accountant audited and endorsed the consolidated annual accounts of Icelandair Group hf. for the year 2019. Auður and Hjördís Ýr are members of the Institute of State Authorized Public Accountants in Iceland.

[40] Related party transactions from 31 December 2019 have not been audited or reviewed by the Company's independent auditors.

07 CONSOLIDATED FINANCIAL STATEMENT FOR YEAR 2019

Icelandair Group hf.

Consolidated Financial Statements for the year 2019

Icelandair Group hf. | Reykjavíkurflugvöllur | 101 Reykjavík Iceland | Reg. no. 631205-1780

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Endorsement and Statement by the Board of Directors and the CEO

Operations in the year 2019

These financial statements comprise the consolidated financial statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The Group operates in the airline and tourism sectors with Iceland as a cornerstone of an international route network.

For the year 2019, loss amounted to USD 57.8 million and total comprehensive loss amounted to USD 34.8 million. Total equity at year end 2019 amounted to USD 482.5 million, including share capital of USD 44.2 million, according to the consolidated statement of financial position. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity during the year.

On 12 March 2019, the Boeing 737 MAX aircrafts were suspended which has caused adverse effects on Icelandair‘s operations. The suspension of the MAX aircraft has resulted in unprecedented impact on the operations of Icelandair in 2019. The Company's MAX aircraft were intended to cover 27% of Icelandair's passenger capacity in 2019. The key focus of management has been on minimizing the impact of the suspension on the company, the passengers and the Icelandic tourism industry by adding leased aircraft to the fleet during the summer and by placing emphasis on ensuring seating capacity to and from Iceland, with the result that the number of Icelandair's passengers travelling to Iceland increased by 25% from 2018. Despite these mitigating measures the situation has had negative impact on revenue in the passenger network, increased expenses and restricted the utilization of the fleet and crew. Two partial compensation agreements were reached with Boeing in connection with the company's loss due to the suspension. This was recognized partially as increased passenger revenue and partially as decreased aircraft lease expense in aviation expenses. Details on these agreements with Boeing are confidential. The estimated effect quantified to date on Icelandair Group's EBIT net the partial compensations is around USD 100 million in 2019.

There is still uncertainity when the MAX aricraft suspension will be lifted. The financial impact will however be considerably less in the year 2020 than in 2019 as Icelandair has been able to organize its operations in 2020 with this possible scenario in mind. The Company is in ongoing discussions with Boeing regarding further compensation for the financial loss resulting from the suspension.

The Company is still expecting 10 MAX aircraft to be delivered. The initial delivery schedule was that 3 of these MAX aircraft were to be delivered in 2019, 5 MAX aircraft in 2020 and 2 MAX aircraft in 2021. The Company expects the 3 MAX aircraft that were to be delivered in 2019 to be delivered before the end of 2020. However, the Company realizes that further delays may be expected. The suspension has already had significant adverse effects on the Company's operation and profitability and will continue to do so while the suspension remains. Therefore, the development of the situation with the MAX aircraft is closely monitored by the Company and rolling 12-18 months contingency plans are maintained to ensure that all mitigating actions are made during this time period.

In 2019 many operational improvements materialized but due to the negative impact resulting from the MAX suspension the full year operation resulted in net loss. The Company's key goal in 2020 is to return to profitability by building on the operational improvements and mitigate the operational risk of the potential continued MAX suspension. With USD 301.6 million in liquidity and USD 482.5 million in equity, the company is well equipped to address challenges and seize opportunities and thereby generate long term profitable growth.

Following a strategic decision in 2018 to place greater focus on the Group's key competencies, i.e. the airline industry, the Company signed a share purchase agreement (the "Agreement") on 13 July 2019, with Berjaya Property Ireland Limited ("Berjaya"), a subsidiary of Berjaya Land Berhad, whereby Berjaya acquires a majority share in Icelandair Hotels and related real estate (the "Hotels"). The completion of the Transaction was set for year-end 2019. In December 2019, the Company granted Berjaya a two-month extension due to capital controls in Malaysia. Further information can be found in note 7.

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

At a shareholders' meeting held 24 April 2019 a proposal was approved authorising the Board of Directors to increase Company's share capital in the nominal value of ISK 625,000,000 with the sale of shares to PAR Capital Management Inc. and related companies. PAR Capital is an international investment fund focusing on long-term investments, mostly in travel services and airlines. The increase in share capital will strengthen the Company's financial standing still further and enable it to develop its fleet of aircraft and thereby support profitable long-term growth of its route network. In addition, the Company will be better placed to seize any opportunities that may arise in the current operating environment.

The Board of Directors proposes no dividend payment to shareholders in 2020 for the year 2019.

Share capital and Articles of Association

The nominal value of the Company's issued share capital amounted to ISK 5.4 billion at year-end. The share capital is divided into shares of ISK 1, each with equal rights within a single class of shares listed on the Icelandic Stock Exchange (Nasdaq Iceland). Companies can acquire and hold up to 10% of the nominal value of treasury shares according to the Icelandic Company's Act. At year end the Company did not hold any treasurey shares.

The Company's Board of Directors comprises five members, two women and three men. The gender ratio is thus in accordance with Laws requiring companies with over 50 employees to ensure that the Board has representation from both genders and each gender is at least 40% when there are more than three Board members. The Board members are elected at the annual general meeting for a term of one year. Those persons willing to stand for election must give formal notice thereof to the Board of Directors at least seven days before the annual general meeting.

The Company's Articles of Association may only be amended at a legitimate shareholders' meeting, provided that amendments and their main aspects are clearly stated in the invitation to the meeting. A resolution will only be valid if it is approved by at least 2/3 of votes cast and is approved by shareholders controlling at least 2/3 of the share capital represented at the shareholders' meeting.

The number of shareholders at year end 2019 was 3,171 an increase of 155 during the year. At year end 2019 the 10 largest shareholders were:

Name	Shares in ISK thousand	Shares in %
Par Investment Partners L.P.	745,250	13.71
Lífeyrissjóður verslunarmanna	642,361	11.81
Stefnir - ÍS 15 og ÍS 5	573,938	10.55
Gildi - lífeyrissjóður	393,761	7.24
Birta lífeyrissjóður	381,562	7.02
Lífeyrissjóður starfsmanna ríkisins A deild og B deild	438,815	8.07
Frjálsi lífeyrissjóðurinn	154,480	2.84
Landsbréf - Úrvalsbréf	134,523	2.47
Brú - Lífeyrissjóður starfsmanna sveitarfélaga	96,136	1.77
Sólsvöllur ehf.	91,214	1.68
	3,652,040	67.16
Other shareholders	1,785,621	32.84
	5,437,661	100.00

Further information on matters related to share capital is disclosed in note 27. Additional information on shareholders

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

Corporate Governance

The Group's management is of the opinion that practicing good Corporate Governance is vital for the existence of the Group and in the best interests of shareholders, Group companies, employees and other stakeholders and will in the long run produce satisfactory returns on shareholders' investment. Corporate Governance exercised within Icelandair Group hf. ensures sound and effective control of the Company´s affairs and a high level of business ethics.

The framework for Corporate Governance practices within the Group consists of the provisions of law, the parent Company's Articles of Association, general securities regulations and the Icelandic Corporate Governance guidelines issued by the Iceland Chamber of Commerce, Nasdaq Iceland and the Confederations of Icelandic Employers. Corporate Governance practices ensure open and transparent relationships between the Company´s management, its Board of Directors, its shareholders and other stakeholders.

The Board of Directors has prepared a Corporate Governance Statement in compliance with the Icelandic Corporate Governance guidelines which are described in full in the Corporate Governance Statement in the consolidated financial statements. It is the opinion of the Board of Directors that Icelandair Group hf. complies with the Icelandic guidelines for Corporate Governance.

Information on matters related to financial risk management is disclosed in note 34.

Non-Financial Reporting

According to Icelandic Financial Statements Act companies should disclose, in their management report, relevant and useful information on their policies, main risks and outcomes relating to at least environmental matters, social and employee aspects, respect for human rights, anticorruption and bribery issues in addition to a short description of the Company's business model. The Company's policies and outcome of these matters are further discussed in the Non-Financial Reporting in the consolidated financial statements.

Statement by the Board of Directors and the CEO

The consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for financial statements of listed companies.

According to our best knowledge it is our opinion that the annual consolidated financial statements give a true and fair view of the consolidated financial performance of the Group for the year 2019, its assets, liabilities and consolidated financial position as at 31 December 2019 and its consolidated cash flows for the year 2019.

Further, in our opinion, the consolidated 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 consolidated financial statements of Icelandair Group hf. for the year 2019 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the consolidated financial statements will be approved at the annual general meeting of Icelandair Group hf.

Reykjavík, 6 February 2020.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board
Guðmundur Hafsteinsson
Heiðrún Jónsdóttir
Ómar Benediktsson
Svafa Grönfeldt

CEO:
Bogi Nils Bogason

Independent Auditors' Report

To the board of directors and shareholders of Icelandair Group hf.

Report on the audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Icelandair Group hf. "the Group", which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional disclosure requirements for listed companies in Iceland.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of consolidated financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit responded to the key audit matter
Timing and accuracy of revenue recognition of passenger income *Reference is made to note 8 "Operating income" and 32 "Deferred income".* Passenger ticket sale is presented as deferred income in the consolidated statement of financial position until transportation has been provided and at that time the sale is recognized as revenue. Large volumes of transactions flow through various computer systems from the date of sale until revenue is recognized in the consolidated statement of profit or loss. The recording process is complex which gives rise to an inherent risk of error, in determining the amount and timing of the revenue recognition. Timing and accuracy in the recording of passenger income is therefore one of the key audit matters of our audit of the consolidated financial statements.	Our audit procedures were designed to challenge the timing and accuracy of the revenue recognition. These procedures include reviewing the test of controls over the Group's systems which govern the passenger ticket sales, including access control and change management controls. We tested various automated and non-automated controls. We also tested import and export of key data to and from the system. The purpose of the testing was to assess if the design of the controls was likely to ensure the accuracy and timing of the revenue recognition of passenger income and to test operating effectiveness of selected controls. We analysed passenger revenue and used external and internal information to set expectations which were compared to recognized revenue. We used substantive testing including a reconciliation between systems, testing of selected journal entries posted to passenger revenue accounts and we tested the inclusion of passenger revenue transactions in the appropriate period by testing selected flights before and after the the reporting date.

Independent Auditors' Report continued:

Key audit matter	How our audit responded to the key audit matter
Expected recoverable amount of intangible assets and goodwill *Reference is made to note 18 "Intangible assets and goodwill" and 42.o "Impairment".* The carrying value of goodwill amounted to USD 137.1 million and other intangible assets USD 33.4 million at year end 2019 as specified in note 18. The carrying value of intangible assets has been allocated to the applicable cash generating units within the Group. Management is required to perform an impairment test annually on goodwill and other intangible assets with indefinite useful lives. The purpose of an impairment test is to determine if goodwill and other intangible assets can be recovered through future cash flows. The recoverable amounts of individual cash generating units are determined by discounting the expected future cash flows generated from the continuing use of the units. The expected recoverable amount of intangible assets is one of the key audit matters due to the significance to the Group's consolidated statement of financial position, and due to inherent uncertainty involved in forecasting and discounting future cash flows which are the basis of the assessment of the recoverability of the intangible assets.	We used the service of our valuation specialists to assess the valuation models and assumptions used by management in their calculations of expected recoverable amount of each cash generating unit. We assessed the appropriateness of management's key assumptions. We evaluated alignment of long-term growth rates and considered whether discount rates were within acceptable ranges for each cash generating unit. We considered the potential impact of uncertenties related to the supsension of the Boeing 737 MAX aircrafts and the effect on key assumptions within management´s business plans. We assessed the reasonableness for margins, new investments and utilization in management´s forecasts and we considered the accuracy of forecasts used in previous years against actual results. We verified the impairment calculations. Furthermore, we challenged management´s sensitivity analysis to evalueate wether a reasonable change in the key assumptions for any of the Group´s cash generating units would cause the carrying amounts to exceed the recoverable amounts. We assessed related disclosures to confirm that all information required by applicable accounting policies were provided.

Other information

The Board of Directors and CEO are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. The annual report is not available at our reporting date but is expected to be made available to us after that date.

Independent Auditors' Report continued:

Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union and additional disclosure requirements for listed companies in Iceland, financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and CEO are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and CEO are responsible for overseeing the Group’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report continued:

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements contd.
We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and were applicable, related safeguards.

From the matters communicated with The Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statements Act no. 3/2006, we confirm that, to the best of our knowledge, the statement by the Board of Directors and the CEO accompanying the consolidated financial statements includes the information required by the Financial Statements Act if not disclosed elsewhere in the consolidated financial statements.

The engagement partner on the audit resulting in this independent auditor's report is Auður Ósk Þórisdóttir.

Reykjavik, 6 February 2020.

KPMG ehf.

Auður Ósk Þórisdóttir
Hjördís Ýr Ólafsdóttir

Consolidated Income Statement and other Comprehensive Income

	Notes	2019	2018
Operating income			
Transport revenue	8	1,159,524	1,093,314
Aircraft and aircrew lease		91,647	120,113
Other operating revenue	8	253,324	297,091
		1,504,495	1,510,518
Operating expenses			
Salaries and other personnel expenses		489,828	515,872
Aviation expenses		568,455	552,669
Other operating expenses		308,236	365,498
	9	1,366,519	1,434,039
Operating profit before depreciation and amortisation (EBITDA)		137,976	76,479
Depreciation and amortisation	11	(177,273)	(133,447)
Operating loss (EBIT)		(39,297)	(56,968)
Finance income		7,044	8,578
Finance costs		(32,994)	(21,172)
Net finance costs	12	(25,950)	(12,594)
Share of (loss) profit of associates	20	(7,354)	1,752
Loss before tax		(72,601)	(67,810)
Income tax	23	14,822	12,240
Loss for the year		(57,779)	(55,570)
Other comprehensive income (loss)			
Items that are or may be reclassified to profit or loss			
Currency translation differences		(1,276)	(6,745)
Cash flow hedges - effective portion of changes in fair value, net of tax		26,463	(40,339)
Net loss on hedge of investment, net of tax		(2,241)	(7,773)
Other comprehensive income (loss) for the year		22,946	(54,857)
Total comprehensive loss for the year		(34,833)	(110,427)
Owners of the Company		(55,669)	(55,815)
Non-controlling interests		(2,110)	245
Loss for the year		(57,779)	(55,570)
Total Comprehensive loss attributable to:			
Owners of the Company		(32,715)	(110,606)
Non-controlling interests		(2,118)	179
Total comprehensive loss for the year		(34,833)	(110,427)
Earnings per share:			
Basic earnings per share in US cent per share	28	(1.06)	(1.16)
Diluted earnings per share in US cent per share	28	(1.06)	(1.16)

The notes on pages 14 to 62 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2019 10 Amounts are in USD thousand

Consolidated Statement of Financial Position

	Notes	2019	2018
Assets:			
Operating assets	13-16	630,400	673,420
Right-of-use assets	17	134,035	0
Intangible assets and goodwill	18-19	175,231	177,568
Investments in associates	20	25,784	26,134
Deferred cost	21	4,741	91
Receivables and deposits	22	44,967	17,365
Non-current assets		1,015,158	894,578
Inventories	24	22,689	25,951
Derivatives used for hedging	34	1,881	666
Trade and other receivables	25	124,879	118,298
Assets held for sale	7	276,907	125,169
Cash and cash equivalents	26	235,073	299,460
Current assets		661,429	569,544
Total assets		1,676,587	1,464,122
Equity:			
Share capital		44,199	39,053
Share premium		174,299	133,513
Reserves		45,449	26,262
Retained earnings		219,132	271,034
Equity attributable to equity holders of the Company	27	483,079	469,862
Non-controlling interests		(601)	1,517
Total equity		482,478	471,379
Liabilities:			
Loans and borrowings	29	241,328	147,513
Lease liabilities	30	135,473	0
Payables	31	23,418	14,554
Deferred tax liabilities	23	25,679	32,868
Non-current liabilities		425,898	194,935
Loans and borrowings	29	79,958	268,288
Lease liabilities	30	22,980	0
Derivatives used for hedging	34	1,561	39,660
Liabilities held for sale	7	238,732	52,244
Trade and other payables	32	221,000	222,766
Deferred income	33	203,980	214,850
Current liabilities		768,211	797,808
Total liabilities		1,194,109	992,743
Total equity and liabilities		1,676,587	1,464,122

The notes on pages 14 to 62 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2019 11 Amounts are in USD thousand

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company						
2018	**Share capital**	**Share premium**	**Reserves**	**Retained earnings**	**Total**	**Non-con-trolling interest**	**Total equity**
Balance at 1 January 2018	39,532	140,519	127,407	282,739	590,197	1,338	591,535
Impact of IFRS 15 implementation				5,010	5,010		5,010
Restated Balance at 1 January 2018	39,532	140,519	127,407	287,749	595,207	1,338	596,545
Purchase of treasury shares	(479)	(7,006)			(7,485)		(7,485)
Total comprehensive loss			(54,790)	(55,816)	(110,606)	179	(110,427)
Loss of subsidiaries and associates in excess of dividend received			(46,355)	46,355			
Dividend (0.15 USD cent per share)				(7,254)	(7,254)		(7,254)
Balance at 31 December 2018	39,053	133,513	26,262	271,034	469,862	1,517	471,379
2019							
Balance at 1 January 2019	39,053	133,513	26,262	271,034	469,862	1,517	471,379
Total comprehensive loss			22,954	(55,669)	(32,715)	(2,118)	(34,833)
Share issued	5,146	40,786			45,932		45,932
Loss of subsidiaries and associates in excess of dividend received			(3,767)	3,767			0
Balance at 31 December 2019	44,199	174,299	45,449	219,132	483,079	(601)	482,478

Information on changes in other reserves is provided in note 27.

The notes on pages 14 to 62 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2019 12 Amounts are in USD thousand

Consolidated Statement of Cash Flows

	Notes	2019	2018
Cash flows from operating activities:			
Loss for the year		(57,779)	(55,570)
Adjustments for:			
Depreciation and amortisation	11	177,273	133,447
Expensed deferred cost		11,635	9,991
Net finance costs	12	25,950	12,594
Gain on sale of operating assets		(2,479)	(4,767)
Gain on sale of investments		0	(710)
Share in loss (profit) of associates		7,355	(1,752)
Tax expense	23	(14,822)	(12,240)
		147,133	80,993
Changes in:			
Inventories, decrease	24	2,935	850
Trade and other receivables, increase		(4,044)	(8,577)
Trade and other payables, (decrease) increase		(2,839)	29,077
Deferred income, increase (decrease)		8,091	(11,211)
Cash generated from operating activities		4,143	10,139
Interest received		3,112	2,642
Interest paid		(34,510)	(23,546)
Income taxes paid		0	(8,675)
Net cash from operating activities		119,878	61,553
Cash flows to investing activities:			
Acquisition of operating assets	13	(253,447)	(263,900)
Proceeds from sale of operating assets		155,067	52,719
Acquisition of intangible assets	18	(5,654)	(2,749)
Deferred cost, change		(10,173)	(4,602)
Non-current receivables, change		(12,963)	88,546
Cash attributable to assets held for sale	7	(11,487)	(4,034)
Short term investments, change		0	4,087
Net cash used in investing activities		(138,657)	(129,933)
Cash flows to financing activities:			
Purchase of treasury shares	27	0	(7,485)
Dividend paid		0	(7,254)
Share issued	27	45,932	0
Proceeds from loans and borrowings	29	200,789	143,424
Repayment of loans and borrowings	29	(236,152)	(18,783)
Repayment of lease liabilities	30	(30,783)	0
Short term loans, change	29	(24,726)	39,434
Net cash (used in) from financing activities		(44,940)	149,336
(Decrease) increase in cash and cash equivalents		(63,719)	80,956
Effect of exchange rate fluctuations on cash held		(668)	(2,687)
Cash and cash equivalents at beginning of the year		299,460	221,191
Cash and cash equivalents at 31 December	26	235,073	299,460
Investment and financing without cash flow effect:			
Acquisition of right-of-use assets	17	(100,037)	0
New or renewed leases	30	110,750	0
Acquisition of operating assets and intagable assets		0	(64,740)
Proceeds from sale of operating assets		0	1,237
Investment in subsidiaries and associates		0	4,573
Non-current receivables		(10,713)	52,506
Proceeds from loans and borrowings	29	0	6,424

The notes on pages 14 to 62 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2019 13 Amounts are in USD thousand

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is at Reykjavíkurflugvöllur in Reykjavík, Iceland. The consolidated financial statements for the Company as at and for the year ended 31 December 2019 comprise the Company and its subsidiaries, together referred to as the “Group” and individually as "Group entities" and the Group's interests in associates. The Group primarily operates in the airline and tourism industry. The Company is listed on the Nasdaq Main Market Iceland.

2. Basis of accounting

a. Statement of compliance

The Group's consolidated financial statements 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. They were authorised for issue by the Company's board of directors on 6 February 2020.

b. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, part of deferred income and certain short-term investments are stated at their fair values. Details of the Group's accounting policies are included in Note 42.

This is the first set of the Group's annual financial statements in which IFRS 16 Lease has been applied. Changes to significant accounting policies are described in Note 5.

3. Functional and presentation currency

The Company's functional currency is U.S. dollars (USD). These Consolidated financial statements are presented in U.S dollars (USD). All financial information presented in USD has been rounded to the nearest thousand, unless otherwise indicated.

4. Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2019 is included in the following notes:

Note 19 - Measurement of the recoverable amounts of cash-generating units
Note 33 - Deferred income
Note 35 - Financial instruments and values

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 Director of Risk Management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

Notes, contd.:

4. Use of estimates and judgements, contd.:

The Risk Committee 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.

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.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 33 - Deferred income
Note 35 - Derivatives
Note 35 - Non-derivative financial liabilities

5. Changes in accounting policies

The Group initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group’s financial statements.

IFRS 16 Lease

On 1 January 2019, the Group applied IFRS 16 Leases. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

a. Definition of a lease

The Group previously determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of lease, as explained in Note 42 e.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

Notes, contd.:

5. Changes in accounting policies, contd.:

b. As a lessee

As a lessee, the Group leases many assets including property, airplaines, cars and other assets. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risk and rewards incidental to ownership of the underlying asset of the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilites for most of the leases.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

(i). Aircraft maintenance of leased aircraft

Accounting of the maintenance on leased aircraft, the Group recognizes return obligation liabilities and provisions in respect of the required maintenance obligations within the framework of the lease contract of aircraft to lessors. The constitution of these return obligation liabilities and provisions depends on the type of maintenance obligations to fulfill before returning these aircraft to the lessors: overhaul and restoration work as well as airframe and engine potential reconstitution. These provisions also consist of compensation paid to lessors in respect of wear of the limited life parts in the engines.

- Overhaul and restoration works (not depending on aircraft utilization)

Costs resulting from work required to be performed just before returning aircraft to the lessors, such as painting of the shell or aircraft overhaul (“C Check”) are recognized as provisions as of the inception of the contract. The counterpart of these provisions is booked with the initial book value of the aircraft right-of-use assets. This complement to the right-of-use asset is depreciated over the lease term.

- Airframe and engine potentials reconstitution (depending on the utilization of the aircraft and its engines)

The airframe and the engine potentials are recognized as a additional to the right-of-use assets since they are considered as full-fledged components, as distinct from the physical components which are the engine and the airframe. These components are the counterparts of the return obligation liability, recognized in its totality at the inception of the contract. When maintenance events aimed at reconstituting these expenses take place, the costs incurred are capitalized. The provision is depreciated over the period of use of the underlying assets (flight hours for the engine component or straight-line for the airframe component).

- Compensation related to limited life parts (engine components)

As the component approach is not applicable for limited life parts, costs related to the lessor's compensation are booked progressively as provisions as they are used during the lease term and based upon contractual data (e.g. cost of a limited life part).

Provision for maintenance of leased engines was classified as lease liability under IFRS 16 during the year. Reclassification has been made in the third quarter and provision for maintenance of leased engines is classified under IAS 37 as provision. Reclassification has been made in the balance sheet due to these classification changes. Maintenance cost from lease engines amounted to USD 21.8 million during the year.

(ii). Lease classified as operating leases under IAS 17

The Group previously classified property lease as operating leases under IAS 17. On transition lease liabilities for the leases were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019 (see Note 5.d.). Right of use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all leases.

Notes, contd.:

5. Changes in accounting policies, contd.:

b. As lessee (contd.:)

(ii). Lease classified as operating leases under IAS 17 (contd.:)

The Group tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases perviously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilites for leases for which the lease term ends within 12 months of the date of initial application;

- did not recognise right-of-use assets and liabilites for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and

- used hindsight when determining the lease term.

c. As a lessor

The Group leases out its own property and right-of-use assets. The Group has classified these leases as operating leases.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for sub-lease.

The Group sub-leases some of its properties. Under IAS 17 the head lease and sub-lease contracts were classified as operating leases. On transition to IFRS 16 the right-of-use assets recognised from the head leases are presented in right-of-use assets net of sub-lease agreement. Receivable from sub-leases is presented is presented in receivable as net present value of future lease payments.

The Group has applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

d. Impacts on consolidated financial statements

(i) Consolidated Statement of Financial Position

On transition to IFRS 16 the Group recognized right-of-use assets, lease liability and lease receivable.

Assets:	**1.1.2019**
Non-current assets:	
Right-of-use assets	268,864
Receivables and deposits	14,076
Total current assets	282,940
Current assets:	
Receivables	6,783
Total current assets	6,783
Total Assets	289,723
Liabilities:	
Non-current liabilities:	
Lease liabilites	259,029
Total non-current liabilities	259,029
Current liabilities:	
Lease liabilites	30,694
Total current liabilities	30,694
Total liabilites	289,723

Consolidated Financial Statements of Icelandair Group hf. 2019 17 Amounts are in USD thousand

Notes, contd.:

5. Changes in accounting policies, contd.:

d. Impacts on consolidated financial statements (contd.:)

(i) Consolidated Statement of Financial Position (contd.:)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 4.7%

Operating lease commitments at 31 December 2018 as disclosed under IAS 17	808,793
Discounted using the incremental borrowing rate at 1 January 2019	(54,723)
Exemption of low-value lease	(10,650)
Exemption of lease with 12 months or shorter terms	(419,517)
Extension options reasonably certain to be exercised	8,712
Lease that is not classified under IFRS 16	(42,892)
Lease liabilities at 1 January 2019	289,723

An agreement has been made of sales and lease back of four MAX aircrafts, in addition to the MAX the Group has made a lease agreement for one Boeing 737-800 aircraft that will be delivered early 2020. Lease liability for those five aircrafts amount to 159 million USD.

(ii) Consolidated Statement of Comprehensive Income

The following table shows the change to the line items of the consolidated statement of comprehensive income during the year 2019 with adoption of IFRS 16.

	Amounts without adoption of IFRS 16 2019	Adjustment IFRS 16	As reported 2019
Operating income			
Transport revenue	1,159,524	0	1,159,524
Aircraft and aircrew lease	98,847	(7,200)	91,647
Other operating revenue	257,836	(4,512)	253,324
Total operating income	1,516,207	(11,712)	1,504,495
Operating expenses			
Salaries and other personnel expenses	489,828	0	489,828
Aviation expenses	595,107	(26,652)	568,455
Other operating expenses	324,764	(16,528)	308,236
Total operating expenses	1,409,699	(43,180)	1,366,519
Operating profit before depr. and amortisation / EBITDA	106,508	31,468	137,976
Depreciation and amortisation	(148,341)	(28,932)	(177,273)
Operating loss before net finance costs / EBIT	(41,833)	2,536	(39,297)
Net finance costs	(16,535)	(9,415)	(25,950)
Share of loss of associates, net of tax	(7,354)	0	(7,354)
Profit before income tax	(65,722)	(6,879)	(72,601)
Income tax	13,446	1,376	14,822
Profit for the year	(52,276)	(5,503)	(57,779)

Consolidated Financial Statements of Icelandair Group hf. 2019 18 Amounts are in USD thousand

Notes, contd.:

5. Changes in accounting policies, contd.:

d. Impacts on consolidated financial statements (contd.:)

(iii) **Consolidated Statement of Cash Flows**

The following table shows the change to the line items of the consolidated statement of cash flows during the year 2019 with adoption of IFRS 16.

	Amounts without adoption of IFRS 16 2019	Adjustment IFRS 16	As reported 2019
Cash flows from operating activities			
Loss for the year	(52,276)	(5,503)	(57,779)
Depreciation and amortisation	148,341	28,932	177,273
Net finance costs	20,691	5,259	25,950
Gain on the sale of operating assets	(6,863)	4,384	(2,479)
Interest received	2,237	875	3,112
Interest paid	(20,716)	(13,794)	(34,510)
Tax expense	(13,446)	(1,376)	(14,822)
Other operating activites	22,541	592	23,133
Net cash from operating activites	100,509	19,369	119,878
Non-current receivables, change	(24,377)	11,414	(12,963)
Other investing activites	(125,694)	0	(125,694)
Net cash used in investing activites	(150,071)	11,414	(138,657)
Repayment of lease liabilites	0	(30,783)	(30,783)
Other financing activites	(14,157)		(14,157)
Net cash used in financing activities	(14,157)	(30,783)	(44,940)
Decrease in cash and cash equivalents	(63,719)	0	(63,719)

Consolidated Financial Statements of Icelandair Group hf. 2019 19 Amounts are in USD thousand

Notes, contd.:

6. Operating segments

Segment information is presented in the 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. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis.

Each entity operates its operations as a single business unit and the management of Icelandair Group assesses performance based on measures including operating profit, and makes resource allocation decisions for the entities based on various performance metrics. The objective in making resource allocation decisions is to optimize consolidated financial results.

Icelandair

The largest entity of the group, the international passenger airline Icelandair ehf., including its subsidiary Icelandair Cargo, has been identified for financial reporting purposes as reportable operating segments. Icelandair‘s route network is based on the Hub and Spoke concept between Europe and North America via Iceland, leveraging Iceland's geographical position. This successful strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed Icelandair to constantly grow and expand its route network over the past years. Icelandair Cargo offers freight services by utilizing the belly capacity within aircraft of the Icelandair passenger network as well as with their own freighters.

Icelandair Shared Services, the group‘s shared service center which will be merged into Icelandair ehf. in 2020, Iceeignir, a real estate company that holds the real estate of Icelandair Group and IceCap, a captive insurance company and A320, a dormant are platform functions of the business that primarily support the group entities in this segment and are therefore classified within this segment.

Other group entities

Loftleidir Icelandic, which offers aircraft leasing and consulting services to international passenger airlines and tour operators, Iceland Travel, the largest incoming tour operator in Iceland, Air Iceland Connect, the domestic and regional carrier and Feria, which operates under the name VITA as an outgoing tour operator are also operating segments but do not exceed the quantitative thresholds to be reportable and management has concluded that there are currently no other reasons why they should be separately disclosed.

Icelandair Hotels, offers quality hotels both in Reykjavík and around the countryside, is also classified within this segment. As further discussed in note 7, a 75% equity share in Icelandair Hotels is to be delivered to Berjaya Property Ireland Limited on 28 February 2020 when the remaining balance of the purchase consideration is to be paid.

Notes, contd.:

6. Operating segments, contd.:

Reportable segments for the year 2019

	Icelandair	Other group entities	Total
External revenue	1,168,819	335,676	1,504,495
Inter-segment revenue	116,961	12,746	129,707
Segment revenue	1,285,780	348,422	1,634,202
Depreciation and amortisation	147,622	29,651	177,273
Segment EBIT	(66,014)	26,717	(39,297)
Finance income	6,693	1,471	8,164
Finance costs	(22,717)	(11,397)	(34,114)
Share of profit of equity accounted investees	268	(7,622)	(7,354)
Reportable segment (loss) profit before tax	(81,770)	9,169	(72,601)
Reportable segment assets	1,914,092	442,851	2,356,943
Capital expenditure	239,026	30,248	269,274
Reportable segment liabilities	1,255,017	382,093	1,637,110

Reportable segments for the year 2018 (restated)

	Icelandair	Other group entities	Total
External revenue	1,108,637	401,881	1,510,518
Inter-segment revenue	95,091	17,854	112,945
Segment revenue	1,203,728	419,735	1,623,463
Depreciation and amortisation	115,666	17,781	133,447
Segment EBIT	(73,050)	16,082	(56,968)
Finance income	8,750	3,779	12,529
Finance costs	(21,173)	(3,950)	(25,123)
Share of profit of equity accounted investees	1,648	104	1,752
Reportable segment (loss) profit before tax	(83,826)	16,015	(67,810)
Reportable segment assets	1,915,771	182,444	2,098,215
Capital expenditure	234,221	37,030	271,251
Reportable segment liabilities	1,239,285	140,171	1,379,456

Consolidated Financial Statements of Icelandair Group hf. 2019 21 Amounts are in USD thousand

Notes, contd.:

6. Operating segments, contd.:

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

	2019	2018 Restated
Revenue		
Total revenue for reportable segments	1,634,204	1,623,463
Elimination of inter-segment revenue	(129,709)	(112,945)
Consolidated revenue	1,504,495	1,510,518
Profit or loss		
Total profit of reportable segments	(72,601)	(67,810)
Consolidated continuing profit before tax	(72,601)	(67,810)
Assets		
Total assets for reportable segments	2,330,359	2,098,215
Investments in associates	26,584	0
Elimination of inter-segment assets	(680,356)	(634,093)
Consolidated total assets	1,676,587	1,464,122
Liabilities		
Total liabilities for reportable segments	1,637,109	1,379,456
Elimination of inter-segment liabilities	(443,000)	(386,713)
Consolidated total liabilities	1,194,109	992,743

Other material items

	Reportable segment totals	Adjust-ments	Consoli-dated totals
2019			
Segment EBIT	(39,297)		(39,297)
Finance income	8,164	(1,120)	7,044
Finance costs	(34,114)	1,120	(32,994)
Share of profit of associates	(7,354)		(7,354)
Capital expenditure	269,274	0	269,274
2018			
Segment EBIT	(56,968)		(56,968)
Finance income	12,529	(3,950)	8,578
Finance costs	(25,123)	3,950	(21,173)
Share of profit of associates	1,752		1,752
Capital expenditure	271,250	0	271,250

Consolidated Financial Statements of Icelandair Group hf. 2019 22 Amounts are in USD thousand

Notes, contd.:

6. Operating segments, contd.:

Geographic information

The geographic information analyses the Group's revenue as the majority of the Group's clients are outside of Iceland. The vast majority of the Group's non-current assets are located in Iceland. In presenting the following information the Group's revenues have been based on geographic location of customers:

	2019	2018
Revenues		
North America	39%	40%
Iceland	23%	22%
West Continental Europe	15%	14%
Scandinavia	7%	7%
United Kingdom	5%	6%
Other	11%	11%
Total revenues	100%	100%

Consolidated Financial Statements of Icelandair Group hf. 2019 23 Amounts are in USD thousand

Notes, contd.:

7. Assets held for sale

During the years 2018 and 2019 the Group decided to sell its subsidiaries in Tourism services following a strategic decision to place greater focus on the Group's key competencies, i.e. the airline industry. See further in notes 6 and 39.

As these operations are deemed immaterial in the consolidated statement of comprehensive income, they are not presented as discontinued operations. In the consolidated statement of financial position, assets and liabilities of this segment are classified as held for sale. The impact on the consolidated financial statements as a whole is presented below.

a. Impacts on consolidated financial statements

(i) Comprehensive profit for the Tourism services

	2019	2018 Restated*
Revenue	168,304	215,724
Elimination of inter-segment revenue	(6,711)	(10,345)
External revenue	161,593	205,379
Expenses	162,792	211,546
Elimination of expenses of inter-segment sales	(9,527)	(10,345)
External expenses	153,265	201,201
Profit from operating activities	8,328	4,178
Net finance cost	(6,980)	711
Share of profit of accosiates	(3)	104
Profit before tax	1,345	4,993
Income tax	820	(962)
Profit from Tourism services, net of tax	2,165	4,031

* Iceland Travel included in 2018

	2019	2018
Basic profit per share in US cent per share	0.04	0.08
Diluted profit per share in US cent per share	0.04	0.08

(ii) Cash flows from (used in) Tourism services

	2019	2018
Net cash from operating activities	19,242	11,506
Net cash used in investing activities	(47,523)	(25,367)
Net cash from financing activities	28,713	13,651
Net cash flows for the period	432	(210)

(iii) Effect of possible disposal on the financial position of the Group

The assets and liabilities of the Tourism services segment are presented as held for sale in the consolidated statements of financial position at end of December 2019 following a strategic decision by the Board. Icelandair Hotels was classified as an asset held for sale at year end 2018. Both Icelandair Hotels and Iceland Travel were classified as held for sale as at 31 December 2019. The carrying amounts of the major classes of assets and liabilities were as follows:

	31.12.2019	31.12.2018
Operating assets	100,201	102,491
Right-of-use-assets	145,909	0
Intangible assets and goodwill	7,437	5,457
Investments in associates	1,011	1,055
Inventories	902	755
Trade and other receivables	9,960	11,377
Cash and cash equivalents	11,487	4,034
Total assets	276,907	125,169
Deferred tax liabilities	2,045	3,191
Loans and borrowings	66,098	35,644
Lease liabilities	149,554	0
Trade and other payables	13,451	8,683
Deferred income	7,584	4,726
Total liabilities	238,732	52,244
Net assets and liabilities	38,175	72,925

Consolidated Financial Statements of Icelandair Group hf. 2019 24 Amounts are in USD thousand

Notes, contd.:

7. Assets held for sale, contd.:

On 13 July 2019 the Company signed a share purchase agreement (the "Agreement") with Berjaya Property Ireland Limited ("Berjaya"), a subsidiary of Berjaya Land Berhad, whereby Berjaya acquired a majority share in Icelandair Hotels and related real estate (the "Hotels"). The completion of the Transaction was set for year-end 2019.

According to the Agreement Berjaya will acquire a 75% equity share in Icelandair Hotels, subject to the Company holding a 25% equity share for a minimum of 3 years. Alongside the signing of the Agreement, the Company and Berjaya, have entered into a put and call option agreement regarding the remaining 25% equity share. Berjaya's due diligence on the Hotels has already been completed.

The enterprise value of the Hotels amounts to USD 136 million. The final purchase price of Berjaya's 75% share will be determined by the amount of net working capital and net interest-bearing debt at the date of delivery. The transaction results in the following cash flow to Icelandair Group; USD 15 million of the purchase consideration already paid by the Buyer, USD 29 million following the refinancing of the Hotels which was completed before year-end 2019 and USD 40 million on 28 February 2020 as the remaining balance of the purchase consideration, upon the delivery of the shares.

The Agreement is subject to various conditions, such as the necessary approvals pertaining to requirements under Act no. 19/1966 and the refinancing of the Hotels. Key conditions of the Agreement were fulfilled by year-end 2019, amongst them being USD 66 million refinancing of loans with Arion banki. The remaining balance is due at completion, which the parties have agreed will take place no later than 28 February 2020. The two-month extension is due to capital controls in Malaysia. The Buyer has provided the Seller with proof of funding of the outstanding amount. Due to the extension, the Buyer has agreed to pay interest of 6% per annum until the final payment is rendered. If the final payment is not paid a break fee of USD 10 million from what has already been paid becomes effective and Icelandair Group may rescind the Agreement without recourse to the Seller or the Company.

At year-end 2019 the Company still classifies the Hotels under assets held for sale. Once the transaction is completed in February, the Company will hold the Hotels as a 25% minority stake and account them as an associate in the Company's financial statement.

The Company's shares in Lindarvatn ehf., the company that owns the property of the upcoming Iceland Parliament Hotel, are not part of the sold entity.

8. Operating income

Transport revenue is specified as follows:	2019	2018
Passengers	1,004,998	947,494
Passenger ancillary revenues	96,090	87,462
Cargo and mail	58,436	58,358
Total transport revenue	1,159,524	1,093,314
Other operating revenue is specified as follows:		
Sale at airports and hotels	94,699	104,590
Revenue from tourism	104,196	133,543
Aircraft and cargo handling services	24,935	24,014
Maintenance revenue	4,746	2,760
Gain on sale of operating assets	2,461	4,767
Other operating revenue	22,287	27,417
Total other operating revenue	253,324	297,091

9. Operating expenses

Salaries and other personnel expenses are specified as follows:	2019	2018
Salaries	340,518	350,804
Contributions to pension funds	51,361	51,853
Other salary-related expenses	37,429	43,421
Other personnel expenses	60,520	69,794
Total salaries and other personnel expenses	489,828	515,872
Average number of full year equivalents	4,715	4,606
Gender ratio for employees (male / female)	47 / 53	46 / 54

Consolidated Financial Statements of Icelandair Group hf. 2019 25 Amounts are in USD thousand

Notes, contd.:

9. Operating expenses, contd.:

Aviation expenses are specified as follows:	2019	2018
Aircraft fuel	323,518	298,771
Aircraft lease	32,174	36,532
Aircraft handling, landing and communication	133,585	136,443
Aircraft maintenance expenses	79,178	80,923
Total aviation expenses	568,455	552,669
Other operating expenses are specified as follows:		
Operating cost of real estates and fixtures	17,526	37,631
Communication	25,205	27,758
Advertising	24,125	29,353
Booking fees and commissions	73,239	64,365
Cost of goods sold	14,398	17,011
Customer services	61,026	65,770
Tourism expenses	50,727	84,025
Other operating expenses	41,990	39,585
Total other operating expenses	308,236	365,498

10. Auditor's fee

	Group auditors		Other auditors	
Auditor's fees are specified as follows:	2019	2018	2019	2018
Audit	480	555	21	3
Other services	92	66	4	34
	572	621	25	37

11. Depreciation and amortisation

The depreciation and amortisation charge in profit or loss is specified as follows:	2019	2018
Depreciation of operating assets, see note 13	143,878	129,792
Depreciation of right-of-use assets, see note 17	28,932	0
Amortisation of intangible assets, see note 18	4,463	3,655
Depreciation and amortisation recognised in profit or loss	177,273	133,447

12. Finance income and finance costs

Finance income and finance costs are specified as follows:	2019	2018
Interest income on cash and cash equivalents	2,106	1,620
Interest income on lease receivables	875	0
Other interest income	127	1,271
Net currency exchange gain	3,936	5,687
Finance income total	7,044	8,578
Interest expense on loans and borrowings	19,686	19,143
Interest expenses on lease liabilities	12,470	0
Other interest expenses	838	2,029
Finance costs total	32,994	21,172
Net finance costs	(25,950)	(12,594)

Consolidated Financial Statements of Icelandair Group hf. 2019 26 Amounts are in USD thousand

Notes, contd.:

13. Operating assets

Operating assets are specified as follows:

	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Cost				
Balance at 1 January 2018	666,867	173,791	117,827	958,485
Additions	272,407	25,434	26,236	324,077
Sales and disposals	(138,236)	(584)	(6,719)	(145,539)
Reclassification	(977)	0	0	(977)
Assets classified as held for sale	0	(82,949)	(42,474)	(125,423)
Effects of movements in exchange rates	(921)	(19,388)	(6,136)	(26,445)
Balance at 31 December 2018	799,140	96,304	88,734	984,178
Additions	233,218	0	20,228	253,447
Sales and disposals	(241,141)	(1,030)	(2,439)	(244,610)
Reclassification	0	12,420	(12,420)	0
Assets classified as held for sale	0	0	(211)	(211)
Effects of movements in exchange rates	(110)	(4,183)	(2,697)	(6,990)
Balance at 31 December 2019	791,107	103,511	91,195	985,814
Depreciation and impairment losses				
Balance at 1 January 2018	243,730	19,626	42,424	305,780
Depreciation	111,654	5,538	12,600	129,792
Sales and disposals	(89,038)	(539)	(6,695)	(96,272)
Assets classified as held for sale	0	(4,873)	(18,060)	(22,933)
Effects of movements in exchange rates	(191)	(2,572)	(2,846)	(5,609)
Balance at 31 December 2018	266,155	17,180	27,423	310,758
Depreciation	125,178	5,393	13,307	143,878
Sales and disposals	(90,955)	(799)	(4,074)	(95,828)
Reclassification	0	2,345	(2,345)	0
Assets classified as held for sale	0	(853)	(145)	(998)
Effects of movements in exchange rates	(344)	(1,153)	(900)	(2,397)
Balance at 31 December 2019	300,034	22,113	33,266	355,413
Carrying amounts				
At 1 January 2018	423,137	154,165	75,403	652,705
At 31 December 2018	532,985	79,124	61,311	673,420
At 31 December 2019	491,073	81,398	57,929	630,400
Depreciation ratios	4-20%	2-6%	5-33%	

Acquisition of operating assets in 2019 amounted to USD 253.4 million. (2018: USD 324.1 million). Overhaul of own engines and aircraft spare parts in the amount of USD 233.2 million (2018: USD 272.4 million)

Consolidated Financial Statements of Icelandair Group hf. 2019 27 Amounts are in USD thousand

Notes, contd.:

14. Mortgages and commitments

The Group's operating assets, aircraft and spare parts are mortgaged to secure debt. The remaining balance of the debt amounted to USD 308.9 million at year end 2019 (2018: USD 203.1 million). The Group owns 41 aircraft including 28 Boeing 757 and 5 Boeing 767. At year end, 10 aircraft were unencumbered.

15. Insurance value of aircraft and flight equipment

The insurance value and carrying amount of the Group's aircraft and related equipment at year-end is specified as follows:

	Insurance value		Carrying amounts	
	2019	**2018**	**2019**	**2018**
Boeing - 35 / 36 aircraft	771,000	771,700	408,475	440,285
Other aircraft	60,300	60,075	41,207	43,148
Flight equipment	67,571	67,862	41,392	49,552
Total aircraft and flight equipment	898,871	899,637	491,074	532,985

16. Insurance value of buildings and other operating assets

The principal buildings owned by the Group are the following:

2019	**Maintenance hangars**	**Hotels / staff apartm.**	**Office buildings**	**Other buildings**	**Under construction**	**Total**
Official assessment value	36,631	7,926	26,588	12,304	0	83,449
Insurance value	70,771	14,720	58,049	38,171	0	181,711
Carrying amounts	29,612	5,339	24,097	22,350	0	81,398
Square meters	31,814	5,690	19,736	17,916	0	75,156
2018						
Official assessment value	32,773	10,155	25,314	12,262	177	80,681
Insurance value	65,649	14,030	52,299	23,194	7,018	162,190
Carrying amounts	31,152	6,163	24,197	12,225	5,387	79,124
Square meters	31,814	5,690	19,736	11,808	6,108	75,156

In 2018 hotel buildings both in operation and under construction were transferred to assets held for sale.

Insurance value of assets held for sale amounted to USD 59.4 million at year end. Official valuation of the same assets amounted to USD 32.0 million. The carrying amount at the same time was USD 76.2 million.

Official valuation of the Group's leased land for buildings at 31 December 2019 amounted to USD 16.6 million (2018: USD 16.5 million) and is not included in the consolidated statement of financial position.

Insurance value of the Group's other operating assets and equipment amounted to USD 65.6 million at year end 2019 (2018: USD 66.9 million). The carrying amount at the same time was USD 57.9 million (2018: USD 61.3 million).

Consolidated Financial Statements of Icelandair Group hf. 2019 28 Amounts are in USD thousand

Notes, contd.:

17. Right of use assets

	Land & Real Estate	Aircraft	Other	Total
Recognised on initial application	198,106	69,690	1,068	268,864
Sublease agreements on inital application	(1,467)	(15,907)	(110)	(17,484)
Adjustments *	(24,378)	(12,082)	(80)	(36,540)
Adjusted balance	172,261	41,701	878	214,840
Adjustments for indexed leases	3,704	(2,116)	22	1,610
New or renewed leases	(445)	100,053	429	100,037
Depreciation	(12,693)	(15,595)	(644)	(28,932)
Reclassified to assets held for sale	(145,862)	0	(47)	(145,909)
Currency translation adjustment	(7,614)	0	3	(7,611)
Balance at 31 December 2019	9,351	124,043	641	134,035

* Adjustments include reclassification from right-of-use-assets to receivable and lease liability to payables and recalculation of lease agreements. In the case of aircraft it also includes reclassification of engine provision.

18. Intangible assets and goodwill

Intangible assets and goodwill are specified as follows:

	Goodwill	Trademarks and slots	Other intangibles	Total
Cost				
Balance at 1 January 2018	152,564	36,013	8,687	197,264
Additions	4,563	0	2,749	7,312
Sales and disposals	0	0	(2,017)	(2,017)
Assets classified as held for sale	(4,563)	0	(1,873)	(6,436)
Effects of movements in exchange rates	(731)	0	(558)	(1,289)
Balance at 31 December 2018	151,833	36,013	6,988	194,834
Additions	0	0	5,654	5,654
Sales and disposals	0	0	(242)	(242)
Assets classified as held for sale	(1,988)	0	(4,749)	(6,737)
Effects of movements in exchange rates	(758)	0	(205)	(963)
Balance at 31 December 2019	149,087	36,013	7,446	192,546
Amortisation and impairment losses				
Balance at 1 January 2018	11,431	2,605	2,806	16,842
Amortisation	0	0	3,655	3,655
Sales and disposals	0	0	(2,017)	(2,017)
Assets classified as held for sale	0	0	(978)	(978)
Effects of movements in exchange rates	0	0	(236)	(236)
Balance at 31 December 2018	11,431	2,605	3,230	17,266
Amortisation	959	0	3,504	4,463
Sales and disposals	0	0	(44)	(44)
Assets classified as held for sale	(433)	0	(3,857)	(4,290)
Effects of movements in exchange rates	0	0	(80)	(80)
Balance at 31 December 2019	11,957	2,605	2,753	17,315
Carrying amounts				
At 1 January 2018	141,133	33,408	5,881	180,422
At 31 December 2018	140,402	33,408	3,758	177,568
At 31 December 2019	137,130	33,408	4,693	175,231

Consolidated Financial Statements of Icelandair Group hf. 2019 29 Amounts are in USD thousand

Notes, contd.:

19. Impairment test

Goodwill and other intangible assets that have indefinite life are tested for impairment at each reporting date. These assets were recognised at fair value on acquistion dates. Goodwill and other intangible assets with indefinite life are specified as follows:

	2019	2018
Goodwill	137,130	140,402
Trademarks and airport slots	33,408	33,408
Total	170,538	173,810

The decrease in the carrying amount of goodwill is due to translation differences of subsidiaries with functional currencies other than USD.

For the purpose of impairment testing, goodwill is allocated to the units which represent the level within the Group at which the goodwill is monitored for internal management purposes. The aggregate carrying amounts of goodwill allocated to each cash generated unit (CGU) are as follows:

	Goodwill		Trademarks and slots	
	2019	2018 Restated	2019	2018 Restated
Icelandair	81,402	82,647	23,893	23,893
Other group entities	55,728	57,755	9,515	9,515
Total goodwill	137,130	140,402	33,408	33,408

The recoverable amounts of cash-generating units was based on their value in use and were determined by discounting the future cash flows generated from the continuing use of the CGU. Cash flows were projected based on actual operating results and a 5 year business plan. Cash flows were extrapolated for determining the residual value using a constant nominal growth rate which was consistent with the long-term average growth rate for the industry. Management believes that this forecast period was justified due to the long-term nature of the business.

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

2019	Icelandair	Other Group entities
Long term growth rate	3.5%	2,5 - 3,5%
Revenue growth:		
Weighted average 2019/2018	10.7%	-22 - -18%
2019 - 2023 / 2018 - 2022	4.5%	0,5-10,4%
Budgeted EBITDA growth	28.8%	-3,0-17,0%
WACC	10,0 - 12,3%	8,4-16,4%
Debt leverage	34,1-45,8%	27,1 - 45,8%
Interest rate for debt	3,8-4,2%	1,9 - 7,0%

2018		
Long term growth rate	2,5 - 3,0%	2,5 - 3,5%
Revenue growth:		
Weighted average 2018/2017	4.8%	-14,9 - 32,8%
2019 - 2023 / 2018 - 2022	7.8%	0,3 - 3,4%
Budgeted EBITDA growth	49.8%	1,2 - 25,5%
WACC	10,0 - 15,1%	8,9 - 12,4%
Debt leverage	10,2 - 45,3%	25 - 45,3%
Interest rate for debt	4,3 - 6,8%	2 - 7,7%

Consolidated Financial Statements of Icelandair Group hf. 2019 30 Amounts are in USD thousand

Notes, contd.:

19. Impairment test, contd.:

The recoverable amounts of the cash-generating units were estimated to be higher than carrying amounts and no impairment was required. The estimated recoverable amount of the Icelandair unit exceeded its carrying amount by approximately USD 93 million (2018: USD 80 million). Management has identified that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The long term EBITDA would need to change by 0,6 percentage points for the estimated recoverable amount to be equal to the carrying amount.

20. Investment in associates

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

		2019		2018	
	Ownership	Carrying amount	Share of profit/loss in associates	Carrying amount	Share of profit/loss in associates
Lindarvatn ehf.	50%	15,435	(69)	16,118	(37)
ITF 1 slhf.	29%	9,009	196	8,594	1,611
Cabo Verde Airlines	36%	0	(7,600)	0	0
EBK ehf.	25%	1,154	210	1,183	0
Other investments		186	(91)	239	178
Total investments in associates		25,784	(7,354)	26,134	1,752
Non-controlling interest in Cabo Verde Airlines			2,286		
Profit of associates attributable to owners of the Company			(5,068)		

Lindarvatn ehf. is the owner of a property at Thorvaldsensstræti and other properties located near Austurvollur which are being rebuilt as a hotel. In total the properties are 15.000 square meters but the new hotel is expected to be 11.000 square meters.

ITF 1 slhf. is a fund managed by Landsbref. The Fund's purpose is to invest in icelandic companies focusing on entertainment and experience for foreign tourists. Main focus is on whole year projects which contribute to better utilization of the infrastructure in the Icelandic Tourism industry.

On 1 March 2019, the Group invested in 36% stake in Cabo Verde Airlines ("CVA"). The Group views this investment as a long term development project and believes that there are opportunities to build CVA up as a strong hub and spoke airline with Cape Verde as a connecting hub between continents and at the same time develop Cape Verde as tourist destination. According to the CVA's business plan it was expected that it would be loss making during the first two years after the Group's acquisition and would become profitable in 2021.

The operating results for the last quarter of the year were below expectation. CVA is now seeking long term financing. If long term financing will not be secured, it might negatively affect the operation of CVA. At the end of 2019, Icelandair Group had no material balance sheet exposure to CVA but negative developments in the CVA operations might negatively impact the operations of Loftleiðir Icelandic in 2020. Loftleidir Icelandic fleet plan assumes that 4-5 aircraft will be leased to CVA during 2020. If those plans change, it might temporary impact the revenue generation of Loftleidir Icelandic because it would take some time to place the aircraft with other operators and such endeavours could entail some cost.

21. Deferred cost

Deferred cost consists of prepaid lease on housing and engine overhauls and heavy maintenance of leased aircraft which will be expensed over the lease period. Deferred cost is specified as follows:

	2019	2018
Deferred cost	5,775	623
Current portion, classified as prepayments among receivables	(1,034)	(532)
Total deferred cost	4,741	91
Deferred cost will be expensed as follows:		
Expensed in 2019	1,034	532
Expensed in 2020	1,006	91
Expensed in 2021	1,006	0
Expensed in 2022	1,006	0
Expensed in 2023	1,006	0
Expensed in 2024	717	0
Total deferred cost, including current portion	5,775	623

Consolidated Financial Statements of Icelandair Group hf. 2019 31 Amounts are in USD thousand

Notes, contd.:

22. Non-current receivables and deposits

Non-current receivables consist of notes, deposits for aircraft and engine lease agreements and various other travel related security fees.

Non-current receivables and deposits are specified as follows:	2019	2018
Loans, effective interest rate 6% / 6%	9,408	266
Lease receivable, interest rate 5%	21,279	0
Security deposits	9,012	6,499
Prepayments on aircraft purchases (see disclosure 36)	28,392	15,729
	68,091	22,494
Current maturities	(23,124)	(5,129)
Non-current receivables and deposits total	44,967	17,365
Contractual repayments mature as follows:		
Maturities in 2019	-	5,129
Maturities in 2020	23,124	3,681
Maturities in 2021	26,706	7,988
Maturities in 2022	3,089	217
Maturities in 2023	4,021	899
Maturities in 2024	3,665	0
Subsequent	7,486	4,580
Total non-current receivables and deposits, including current maturities	68,091	22,494

Non-current receivables and deposits denominated in currencies other than the functional currency comprise USD 3.7 million (2018: USD 1.4 million).

23. Income taxes

(i) Amounts recognised in profit or loss

	2019	2018
Deferred tax expense		
Origination and reversal of temporary differences	(14,822)	(12,240)
Total tax expense recognised in profit or loss	(14,822)	(12,240)

(ii) Amounts recognised in other comprehensive income

	2019	2018
Effective portion of changes in fair value of cash flow hedge	6,074	(12,030)
Total tax recognised in other comprehensive income	6,074	(12,030)

(iii) Reconciliation of effective tax rate

		2019		2018
Loss before tax		(72,601)		(67,810)
Income tax according to current tax rate	20.0%	(14,520)	20.0%	(13,562)
Non-deductible expenses	(0.2%)	173	(0.9%)	637
Other items	0.7%	(475)	(1.0%)	685
Effective tax rate	20.4%	(14,822)	18.1%	(12,240)

Consolidated Financial Statements of Icelandair Group hf. 2019 32 Amounts are in USD thousand

Notes, contd.:

23. Income taxes, contd.:

(iv) Recognised deferred tax liabilities

Deferred tax liabilities are specified as follows:

	2019	2018
Deferred tax liabilities 1 January	32,868	60,885
Deferred tax recognised in profit or loss	(14,822)	(12,240)
Income tax recognised in other comprehensive income	6,074	(12,030)
Exchange rate difference	(52)	(556)
Deferred tax liabilities transferred to assets held for sale	1,611	(3,191)
Deferred tax liabilities 31 December	25,679	32,868

(v) Deferred tax liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Operating assets	0	0	(60,563)	(62,050)	(60,563)	(62,050)
Intangible assets	0	0	(307)	(277)	(307)	(277)
Derivatives	0	6,665	(13)	0	(13)	6,665
Trade receivables	409	0	0	(44)	409	(44)
Operating Lease	1,572	0	0	0	1,572	0
	1,981	6,665	(60,883)	(62,371)	(58,902)	(55,706)
Tax loss carry-forwards	35,394	23,563	0	0	35,394	23,563
Other items	0	0	(2,171)	(725)	(2,171)	(725)
Deferred income tax	37,375	30,228	(63,054)	(63,096)	(25,679)	(32,868)

(vi) Movements in deferred tax balance during the year

2019	1 January	Recognised in profit or loss	Exchange rate difference	Recognised in other comprehensive income and equity	Transferred to asset held for sale	31 December
Operating assets	(62,050)	1,095	204	0	188	(60,563)
Intangible assets	(277)	(36)	6	0	0	(307)
Derivatives	6,665	0	(44)	(6,634)	0	(13)
Trade receivables	(44)	503	2	0	(52)	409
Tax loss carry-forwards	23,563	12,762	(82)	0	(849)	35,394
Operating lease	0	2,395	15	0	(838)	1,572
Other items	(725)	(1,897)	(49)	560	(60)	(2,171)
	(32,868)	14,822	52	(6,074)	(1,611)	(25,679)
2018						
Operating assets	(52,795)	(13,309)	854	0	3,200	(62,050)
Intangible assets	(679)	214	188	0	0	(277)
Derivatives	(3,468)		3	10,130	0	6,665
Trade receivables	(3,308)	3,200	12	0	52	(44)
Tax loss carry-forwards	1,020	22,294	(448)	697	0	23,563
Other items	(1,655)	(159)	(53)	1,203	(61)	(725)
	(60,885)	12,240	556	12,030	3,191	(32,868)

24. Inventories

Inventories are specified as follows:

	2019	2018
Spare parts	18,535	19,546
Other inventories	4,154	6,405
Inventories total	22,689	25,951

Consolidated Financial Statements of Icelandair Group hf. 2019 33 Amounts are in USD thousand

Notes, contd.:

25. Trade and other receivables

Trade and other receivables are specified as follows:

	2019	2018
Trade receivables	69,281	69,243
Prepayments	16,881	30,036
Restricted cash	5,232	2,307
Lease receivables	6,598	0
Other receivables	26,887	16,712
Trade and other receivables total	124,879	118,298

At year end trade receivables are presented net of an allowance for doubtful accounts of USD 7.75 million (2018: USD 4.8 million).

Prepayment and prepaid expenses which relate to subsequent periods amounted to USD 16.9 million (2018: USD 30.0 million) at year end. The prepayments consist mainly of prepaid contractual obligations, insurance premiums, software licenses and leases.

Restricted cash is held in bank accounts pledged against credit cards, derivatives and tourism guarantees.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 34.

26. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	2019	2018
Bank deposits	234,818	299,177
Cash on hand	255	283
Cash and cash equivalents total	235,073	299,460

27. Equity

Share capital

The Company's share capital amounts to ISK 5,437,660,653 according to its Articles of Association. Shareholders are entitled to receive dividend as declared from time to time and are entitled to one vote per share of one ISK. In accordance with a decision on Icelandair Group‘s Annual General Meeting on 8 March 2019, The Company‘s share capital was reduced by ISK 187,339,347 of nominal value as of 1 April 2019 and own shares in the same amount were cancelled. As a result of a Shareholders‘ Meeting on 24 April 2019 the Company‘s share capital was raised by 625,000,000 shares by issuing of new shares. These new shares were purchased by PAR Capital Management for USD 46 million.

The Company held no treasury shares at year end 2019.

Share premium

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to the Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve. The balance of the share premium account can be used to offset losses not covered by other reserves or to offset stock splits.

Consolidated Financial Statements of Icelandair Group hf. 2019 34 Amounts are in USD thousand

Notes, contd.:

27. Equity, contd.:

Reserves

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The translation reserve comprises all currency differences arising from the translation of the financial statements of subsidiaries having functional currencies other than the Group as well as from the translation of liabilities that hedge net investment.

According to the Icelandic Financial Statement Act, companies must retain in a separate equity account recognised share in profit of subsidiaries and associates in excess of dividend received or declared.

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Reserve for profit share of affiliates	Total reserves
Balance 1 January 2018	13,914	42,240	71,253	127,407
Share in profit of subsidiaries and associates in excess of dividend received			(46,355)	(46,355)
Currency translation differences		(6,678)		(6,678)
Net loss on hedge of investment, net of tax	(7,773)			(7,773)
Effective portion of changes in fair value of cash flow hedges, net of tax	(40,339)			(40,339)
Balance at 31 December 2018	(34,198)	35,562	24,898	26,262
Share in profit (loss) of subsidiaries and associates in excess of dividend received			(3,767)	(3,767)
Currency translation differences		(1,268)		(1,268)
Net loss on hedge of investment, net of tax	(2,241)			(2,241)
Effective portion of changes in fair value of cash flow hedges, net of tax	26,463			26,463
Balance at 31 December 2019	(9,976)	34,294	21,131	45,449

Dividend

No dividend was paid to shareholders in the year 2019 (2018: USD 7.3 million).

The Board of Directors proposes no dividend payment to shareholders in 2020 for the year 2019.

28. Earnings per share

Basic earnings per share is calculated by dividing net profit attributable to equity holders of the Parent by the weighted average number of outstanding shares during the year. The calculation of diluted earnings per share is identical to basic earnings per share as no convertible notes or stock options have been issued.

	2019	2018
Basic earnings per share:		
Loss for the year attributable to equity holders of the parent company	(55,669)	(55,815)
Weighted average number of shares for the year	5,243,635	4,812,661
Basic earnings per share in US cent per share	(1.06)	(1.16)
Diluted earnings per share in US cent per share	(1.06)	(1.16)

Consolidated Financial Statements of Icelandair Group hf. 2019 35 Amounts are in USD thousand

Notes, contd.:

29. Loans and borrowings

This note provides information on contractual terms of the Group´s interest-bearing loans and borrowings, which are measured at amortised cost, and changes during the year. For more information on the Group´s exposure to interest rate, foreign currency and liquidity risk, see note 34.

	Current interest bearing debt	Non-current interest bearing debt	Total
Total interest bearing debt 1 January 2018	3,448	286,093	289,541
Proceeds from loans and borrowings	0	144,440	144,440
Transaction cost of long-term loans and borrowings	0	(1,016)	(1,016)
Repayment of borrowings	0	(18,783)	(18,783)
Cash flows related to financing activities	0	124,641	124,641
Proceeds from loans and borrowings	39,423	6,424	45,847
Loans on assets held for sale	0	(35,651)	(35,651)
Financing activities without cash flows	39,423	(29,227)	10,196
Indexation	0	225	225
Currency exchange difference	11	(9,304)	(9,293)
Expensed borrowing cost recognised in effective interests	0	491	491
Other liability related changes	11	(8,588)	(8,577)
Total interest bearing debt 1 January 2019	42,882	372,919	415,801
Proceeds from loans and borrowings	0	145,200	145,200
Proceeds from loans and borrowings on assets held for sale	0	56,700	56,700
Transaction cost of long-term loans and borrowings	0	(1,111)	(1,111)
Repayment of borrowings	0	(236,152)	(236,152)
Cash flows related to financing activities	0	(35,363)	(35,363)
Loans on assets held for sale at beginning of period	35,651	0	35,651
Proceeds from loans and borrowings assets held for sale	8,444	0	8,444
Prepayment of borrowing assets held for sale	(32,546)	0	(32,546)
Loans on assets held for sale	(9,398)	(56,700)	(66,098)
Proceeds from loans and borrowings	12,364	0	12,364
Prepayment of borrowings	(12,852)	0	(12,852)
Financing activities without cash flows	1,663	(56,700)	(55,037)
Currency exchange difference	(2,287)	(2,880)	(5,167)
Expensed borrowing cost recognised in effective interests	0	1,052	1,052
Other liability related changes	(2,287)	(1,828)	(4,115)
Total interest bearing debt 31 December 2019	42,258	279,028	321,286

Consolidated Financial Statements of Icelandair Group hf. 2019 36 Amounts are in USD thousand

Notes, contd.:

29. Loans and borrowings, contd.:

Loans and borrowings are specified as follows:

	2019	2018
Non-current loans and borrowings:		
Secured bank loans	279,028	160,211
Unsecured bonds	0	212,708
Total loans and borrowings	279,028	372,919
Current maturities	(37,700)	(225,406)
Total non-current loans and borrowings	241,328	147,513
Current loans and borrowings:		
Current maturities of non-current liabilities	37,700	12,698
Unsecured bonds	0	212,708
Bank overdrafts and bank loans	42,258	42,882
Total current loans and borrowings	79,958	268,288
Total loans and borrowings	321,286	415,801

Terms and debt repayment schedule:

	Currency	Nominal interest rates year end 2019	Year of maturity	Total remaining balance 2019	2018
Secured bank loans	USD	4.4%	2022-2028	181,505	49,035
Secured bank loans	EUR	1.1%	2026-2028	65,184	72,983
Secured bank loans	ISK	5.4%	2024	32,339	38,193
Unsecured bond issue	USD			0	212,708
Secured bank loans - short term	USD	5.3%	2020	29,892	30,022
Unsecured bank loans - short term	ISK	6.7%	2020	12,366	12,860
Total interest bearing liabilities				321,286	415,801

Repayments of loans and borrowings are specified as follows:

	2019	2018
Repayments in 2019	-	268,287
Repayments in 2020	79,958	12,809
Repayments in 2021	38,116	12,919
Repayments in 2022	42,032	16,674
Repayments in 2023	37,896	26,494
Repayments in 2024	54,177	7,729
Subsequent repayments	69,107	70,889
Total loans and borrowings	321,286	415,801

The company had issued two listed unsecured bond categories: ISIN N000107769982, amounting to USD 190 million and ISIN IS0000025427 amounting to USD 23.6 million which were fully redeemed during 2019 in the amounts of USD 87 million in Q1 and USD 126.6 million in Q2. The company refinanced part of the unsecured bonds with new secured bank loans in the amounts of USD 80 million from an Icelandic financial institution in March, and USD 65.2 million from CIT in December.

Sale lease back agreements were completed to meet the delivery of three Boeing Max aircraft in 2019.

Consolidated Financial Statements of Icelandair Group hf. 2019 37 Amounts are in USD thousand

Notes, contd.:

30. Lease liabilities

This note provides information of the Group's lease liabilities, which are measured at amortised cost, and changes during the year. For more information on the Group's exposure to interest rate, foreign currency and liquidity risk, see note 34.

Lease liabilites is specified as follows:

	2019
Recognised on initial application	289,723
Adjustments *	(55,717)
Adjusted balance	234,006
Adjustments for indexed leases	1,610
New or renewed leases	110,750
Repayment of lease liabilities	(30,694)
Reclassified to liabilities held for sale	(149,554)
Next year payment of lease liabilities	(22,980)
Currency translation adjustment	(7,665)
Balance at 31 December 2019	135,473

	Rate	Land & Real Estate	Aircraft	Other	Total
Lease liabilites in USD	4.72%	173	146,961	72	147,206
Indexed lease liabilites in ISK	4.76%	8,399	0	601	9,000
Lease liabilites in GBP	2.20%	1,604	0	0	1,604
Lease liabilites in other currency	3.41%	624	0	19	643
Total lease liability		10,800	146,961	692	158,453

Cash outflow for leases

	Land & Real Estate	Aircraft	Other	Total
Cash outflow for leases	17,182	26,652	655	44,489
Cash inflow for leases	(458)	(7,200)	0	(7,658)
Depreciation of right-of-use asset, see note 17	(12,862)	(15,474)	(596)	(28,932)
Interest expenses from lease liability	(6,892)	(6,846)	(56)	(13,794)
Interest income from lease receivable	77	798	0	875
Effect on earnings before tax due to IFRS 16	(2,953)	(2,070)	3	(5,020)

Maturity analysis

Repayments in 2020	22,980
Repayments in 2021	21,189
Repayments in 2022	19,893
Repayments in 2023	19,678
Repayments in 2024	18,084
Subsequent repayments	56,629
Total lease liabilities	158,453

Extension options

Some property leases contain extension options exercisable by the Group up to ten years before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexivility. The extension options held are exercisable only the Group and not by the lessors. The Group assesses at lease commencement date wherher it is reasonably certain to exercise the extension options. The Group reassesses where it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

* Adjustments include reclassification from right-of-use-assets to receivable and lease liability to payables and recalculation of lease agreements. In the case of aircraft it also includes reclassification of engine provision

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Notes, contd.:

31. Non-current payables

Non-current payables correspond to accrued engine overhaul cost of leased aircraft and security deposits from lease contracts to be realized after 2020. Non-current obligations are specified as follows:

	2019	2018
Non-current payables	32,721	27,406
Current portion, classified in trade and other payables	(9,303)	(12,852)
Total non-current payables	23,418	14,554
Non-current payables are scheduled to be repaid as follows:		
Repayments in 2019	-	12,852
Repayments in 2020	9,303	925
Repayments in 2021	11,173	3,712
Repayments in 2022	1,088	896
Repayments in 2023	5,107	4,264
Repayments in 2024	4,317	2,454
Subsequent	1,733	2,303
Total non-current payables, including current maturities	32,721	27,406

32. Trade and other payables

Trade and other payables are specified as follows:	2019	2018
Trade payables	58,392	55,909
Current portion of engine overhauls and security deposits from lease contracts	9,303	12,852
Other payables	153,305	154,005
Total trade and other payables	221,000	222,766

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 34.

33. Deferred income

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

Deferred income is specified as follows:	2019	2018
Sold unused tickets	154,180	171,537
Frequent flyer points	17,591	19,165
Other prepayments	32,209	24,148
Total deferred income	203,980	214,850

The amount allocated to frequent flyer points is estimated by reference to the fair value of the discounted services for which they could be redeemed, since the fair value of the points themselves is not directly observable. The fair value of the discounted services for which the points, granted through a customer loyalty programme, can be redeemed takes into account the expected redemption rate and the timing of such expected redemptions. That amount is recognised as deferred income.

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Notes, contd.:

34. Financial risk management

Overview

The Group has exposure to the following financial risks:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the risks above, the Group's objectives, policies, and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Company's Risk Management Committee is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Exposure to credit risk

The carrying amounts of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

		Carrying amount	
	Note	**2019**	**2018**
Non-current receivables and deposits	22	44,967	17,365
Trade and other receivables	25	107,998	88,262
Cash and cash equivalents	26	235,073	299,460
		388,038	405,087

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Credit risk is linked to trade receivables, investment in debt securities and agreements with financial institutions related to hedging. The relative spread of trade receivables across counterparties is also crucial for credit risk exposure. The risk involved is directly related to the fulfilment of outstanding obligations of the Group's counterparties. The Group is aware of potential losses related to credit risk exposure and chooses its counterparties subject to business experience.

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34. Financial risk management, contd.:

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

At year end 2019, the maximum exposure to credit risk for trade and other receivables by type of financial instrument was as follows:

	2019	2018
Credit cards	7,045	40,744
Trade receivables	62,236	28,499
	69,281	69,243
Prepayments on aircraft purchases	16,268	4,249
Lease receivables	6,598	0
Other receivables	32,732	44,806
	124,879	118,298

Impairment losses

The aging of trade receivables at the reporting date was as follows:

	Gross 2019	Allowance for Impairment 2019	Gross 2018	Allowance for Impairment 2018
Not past due	55,935	(1,900)	54,276	(157)
Past due 1-30 days	8,938	(110)	7,876	(290)
Past due 31-120 days	6,671	(1,894)	5,537	(1,981)
Past due 121-365 days	845	(547)	3,309	(507)
More than one year	4,642	(3,299)	3,017	(1,837)
Total	77,031	(7,750)	74,015	(4,772)

Changes in the allowance for impairment in respect of trade receivables during the year were as follows:

	2019	2018
Balance at 1 January	4,772	4,833
Impairment loss allowance, increase	173	869
Amounts written off	3,423	(613)
Exchange rate difference	(618)	(15)
Impairment on assets held for sale transferred to assets held for sale	0	(302)
Balance at 31 December	7,750	4,772

A significant part of the balance relates to customers that have a good track record with the Group. But based on historical default rates, the management believes that minimal impairment allowance is necessary in respect of trade receivables not past due or past due by 30 days.

The allowance account in respect of trade receivables is used to record impairment losses. If the Group believes that no recovery is possible the financial asset is written off directly.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries.

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Notes, contd.:

34. Financial risk management, contd.:

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Exposure to liquidity risk

The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount of three months operating cost on average where 30% can be in the form of unused lines of credit.

The Company's management monitors its cash flow requirements by using rolling forecast and the liquidity management is based on projected cash flow in different currencies.

Following are the contractual maturities of financial liabilities at the reporting date, including estimated interest payments:

31 December 2019	Carrying amount	Contractual cash flows	Within 12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Unsecured bank loans	12,366	12,364	12,364	0	0	0
Secured loans	308,920	345,964	79,743	45,864	145,759	74,598
Lease liability	158,453	188,236	29,684	51,663	44,685	62,204
Payables & prepayments	244,418	244,418	221,000	11,173	10,512	1,733
	724,157	790,982	342,791	108,700	200,956	138,535
Derivative financial liabilities						
Commodity derivatives	966	945	1,115	(170)	0	0
Forward exchange contracts ..	2,044	3,412	3,412	0	0	0
- Outflow	(102,818)	(103,115)	(103,115)	0	0	0
- Inflow	104,862	106,527	106,527	0	0	0
Interest rate swaps	557	572	173	266	133	0
	3,567	4,929	4,700	96	133	0

31 December 2018	Carrying amount	Contractual cash flows	Within 12 months	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Unsecured bond issue	212,708	237,997	237,997	0	0	0
Secured loans	203,093	231,723	60,826	17,656	66,536	86,705
Payables & prepayments	237,320	237,320	222,766	925	8,872	4,757
	653,121	707,040	521,589	18,581	75,408	91,462
Derivative financial liabilities						
Commodity derivatives	33,491	34,139	31,784	2,355	0	0
Forward exchange contracts ..	3,946	2,519	2,519	0	0	0
- Outflow	(87,765)	(89,363)	(89,363)	0	0	0
- Inflow	91,712	91,882	91,882	0	0	0
Interest rate swaps	(832)	(858)	(648)	(24)	(177)	(9)
	36,605	35,799	33,654	2,331	(177)	(9)

Unused unsecured credit lines at year end 2019 amounted to USD 0 million (2018: USD 0 million). Unused secured credit lines at year end 2019 amounted to USD 55 million (2018: USD 0 million).

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Notes, contd.:

34. Financial risk management, contd.:

Market risk

Market risk emerges from changes in market prices, such as foreign exchange rates, interest rates, carbon prices and fuel prices, as those changes will affect the Group's cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group uses spot and forward trading, swaps and options in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. The Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Carbon risk

The Group is exposed to carbon price risk. In terms of volume, carbon emission is a fixed proportion of the fuel consumption but the price volatility of carbon has been greater although the consequential cash flow has been trivial compared to that of fuel costs. The price of carbon units stablized in 2019 after tripling in 2018. The estimated committment in terms of volume is 583.000 units of which 194.000 are covered by free allocation from the ETS. The 2020 compliance is expected the same, leaving the exposure dependent on price developments. The end of year price was 24,62 EUR/t.

Sensitivity analysis

The following table demonstrates the sensitivity of the financial instruments in place at year end to a reasonably possible change in fuel prices, with all other variables held constant, on profit before tax and equtiy:

	Effect on equity	
	2019	**2018**
Increase in carbon prices by 10%	542	86
Decrease in carbon prices by 10%	(542)	(86)

Fuel risk

The Group is exposed to fuel price risk. The Group´s fuel price risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in the event of a substantial fall in the price of fuel. The current Group strategy as reflected in the policy is to hedge between 40% and 60% of fuel consumption 12 months forward and up to 20% from 13-18 months forward. The hedge policy allows for both swaps and options traded with approved counterparties and within approved limits. At year end half of the estimated 12 months exposure of 350.000 tonnes was hedged with swaps.

Sensitivity analysis

The following table demonstrates the sensitivity of the financial instruments in place at year end to a reasonably possible change in fuel prices, with all other variables held constant, on profit before tax and equity:

	Effect on equity	
	2019	**2018**
Increase in fuel prices by 10%	12,656	14,724
Decrease in fuel prices by 10%	(12,656)	(14,724)

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Notes, contd.:

34. Financial risk management, contd.:

Currency risk

The Group is exposed to currency risk on sales, purchases, trade and other receivables, short term investments, cash and cash equivalents, secured bank loans and trade payables that are denominated in a currencies other than the respective functional currencies of Group entities.

The Group seeks to reduce its foreign exchange exposure arising from currency mismatch in the cash flow by netting receipts and payments in each individual currency and by internal trading within the Group. The shortfall of ISK is financed by a surplus of European currencies, most importantly EUR and Scandinavian currencies but also GBP and CAD. The exposure is hedged 50-80% 9-12 months forward with spot and forward contracts.

Exposure to currency risk

The Group's exposure to currency risk in it's major currencies is as follows:

2019	ISK	EUR	GBP	DKK	SEK	CAD
Receivables / payables, net ...	47,050	(1,441)	(4,979)	(763)	(304)	366
Cash and cash equivalents	2,765	48,747	7,253	6,215	3,113	7,570
Secured bank loans	(32,339)	(65,184)	0	0	0	0
Lease receivables	0	0	757	0	0	0
Lease liabilities	(7,940)	(287)	(1,604)	(252)	0	0
Forward exchange contracts ..	106,307	(15,328)	(13,453)	(14,299)	(20,514)	(32,707)
Net statement of financial position exposure ...	115,843	(33,493)	(12,026)	(9,099)	(17,705)	(24,771)
Next 12 months forecast sales	256,686	227,704	40,114	25,173	26,409	77,662
Next 12 months forecast purchases	(457,353)	(128,775)	(21,246)	(8,395)	(2,822)	(12,738)
Capex thereof	(23,210)	(3,032)	(123)	0	0	0
Net 12 months currency exposure	(84,824)	65,436	6,842	7,679	5,882	40,153

2018	ISK	EUR	GBP	DKK	SEK	CAD
Receivables / payables, net ...	69,378	(2,687)	(5,150)	(778)	(178)	79
Cash and cash equivalents	10,263	15,604	5,376	1,768	6,118	3,340
Secured bank loans	(35,987)	(61,554)	0	0	0	0
Forward exchange contracts ..	89,256	(32,052)	(8,926)	(6,899)	(12,867)	(23,500)
Net statement of financial position exposure ...	132,910	(80,689)	(8,700)	(5,909)	(6,927)	(20,081)
Next 12 months forecast sales	274,856	243,087	40,939	25,670	26,894	79,162
Next 12 months forecast purchases	(618,089)	(161,891)	(27,405)	(10,430)	(3,472)	(15,739)
Capex thereof	(25,066)	(628)	(1,146)	0	0	0
Net 12 months currency exposure	(210,323)	507	4,834	9,331	16,495	43,342

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Notes, contd.:

34. Financial risk management, contd.:

The following significant exchange rates of USD applied during the year:

	Average rate 2019	Average rate 2018	Year-end spot rate 2019	Year-end spot rate 2018
ISK	0.0081	0.0092	0.0082	0.0086
EUR	1.12	1.18	1.12	1.14
GBP	1.28	1.33	1.32	1.28
CAD	0.76	0.77	0.77	0.73
DKK	0.15	0.16	0.15	0.15
SEK	0.11	0.12	0.11	0.11

Sensitivity analysis

A 10% strengthening of the USD against the following currencies at 31 December would have increased (decreased) post-tax equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Directly in equity	Profit or loss	Total effect on equity
2019			
ISK	2,715	(763)	1,952
EUR	1,226	1,453	2,679
GBP	1,076	(114)	962
DKK	1,144	(416)	728
SEK	1,641	(225)	1,416
CAD	2,617	(635)	1,982
2018			
ISK	1,017	(3,492)	(2,475)
EUR	2,564	3,891	6,455
GBP	714	(18)	696
DKK	552	(79)	473
SEK	1,029	(475)	554
CAD	1,880	(274)	1,606

A 10% weakening of the USD against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The fair value of a fixed rate instrument will fluctuate because of changes in market interest rates. The cash flow of variable rate instruments will also fluctuate with changes in market interest rates. The Group follows a policy of hedging 40-80% of the net interest rate cash flow exposure of long-term financing with up to a 5-year horizon. This is achieved by using fixed rate loans and fixed for floating swap contracts.

At the reporting date the interest rate profile of the Group´s interest bearing financial instruments was as follows:

	Carrying amount 2019	Carrying amount 2018
Fixed rate instruments		
Commodity derivatives and forward exchange contracts	1,077	(36,605)
Interest rate swaps	(95,899)	(99,796)
	(94,822)	(136,401)
Variable rate instruments		
Financial assets	234,818	299,177
Financial liabilities	(355,889)	(318,523)
	(121,071)	(19,346)

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Notes, contd.:

34. Financial risk management, contd.:

Fair value sensitivity analysis for fixed rate instruments

The Group designates derivatives for the purpose of fuel, carbon, currency and interest rate hedging as hedging instruments under a fair value hedge accounting model. As such, market rates affect the Mark to Market of the derivatives and the market value of fixed rate financial assets. In addition, interest rate changes affect the fixed rate instruments carrying amount through equity.

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts stated below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

31 December 2019	**100 bp increase**	**100 bp decrease**
Commodity derivatives and forward exchange contracts	(4)	4
Interest rate swaps	2,994	(3,147)
Fair value sensitivity (net)	2,989	(3,143)
31 December 2018		
Commodity derivatives and forward exchange contracts	145	(148)
Interest rate swaps	3,115	(3,275)
Fair value sensitivity (net)	3,260	(3,423)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts stated below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

31 December 2019	**100 bp increase**	**100 bp decrease**
Variable rate instruments	998	(998)
Cash flow sensitivity (net)	998	(998)
31 December 2018		
Variable rate instruments	155	(155)
Cash flow sensitivity (net)	155	(155)

Capital management

The Board's policy is to maintain a strong capital base for the benefit of investor, creditor and market confidence and to sustain future development of the business. The policy is to hold in cash and other highly liquid assets the equivalent of three months operating cost of which 30% of the benchmark can be in the form of unused lines of credit.

Dividend

The Board of Directors has approved to the following dividend policy: "The Company's goal is to declare 20-40% of annual net profit as dividend. Final decision on dividend payments will be based on the financial position of the Company, operating capital requirements and market conditions."

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Notes, contd.:

35. Financial instruments and fair values

The table shows the carrying amounts and fair values of financial assets and liabilities. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount 2019	Fair value 2019	Carrying amount 2018	Fair value 2018
Derivatives used for hedging	320	320	(38,994)	(38,994)
Unsecured bond issue	(12,366)	(12,366)	(212,708)	(221,058)
Secured loans	(308,920)	(319,389)	(203,093)	(198,171)
Lease liabilities	(158,453)	(158,453)	0	0
Total	(479,419)	(489,888)	(454,795)	(458,223)

Fair value hierarchy:

The table below analyses the fair value of assets and liabilities and their levels in the fair value hierarchy:

31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Derivatives used for hedging		1,881		1,881
	0	1,881	0	1,881
Financial liabilities				
Unsecured bond issue			(12,366)	(12,366)
Secured loans			(319,389)	(319,389)
Lease liabilities			(158,453)	(158,453)
Derivatives used for hedging		(1,561)		(1,561)
	0	(1,561)	(490,208)	(491,769)

31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Derivatives used for hedging		666		666
	0	666	0	666
Financial liabilities				
Unsecured bond issue			(221,058)	(221,058)
Secured loans			(198,171)	(198,171)
Derivatives used for hedging		(39,660)		(39,660)
	0	(39,660)	(419,229)	(458,889)

The basis for determining the levels is disclosed in note 4.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract. This methodology us also used when valuating Commodity forwards and swaps.

The fair value of interest rate swaps is based on broker quotes. If not available the fair value is based on the discounted cash flow difference of the contractual fixed interest payment and the floating interest receivable.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entities and counterparties when appropriate.

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Notes, contd.:

36. Capital commitments

In 2013, Icelandair Group and Boeing signed an agreement for the purchase of sixteen Boeing 737 MAX8 and 737 Boeing MAX9 aircraft with an option to purchase additional eight aircraft. In Q1 2018, Icelandair took delivery of the first three Boeing 737 MAX8 aircraft from Boeing. Two aircraft were financed with Japanese operating lease with a call option (JOLCO) and one aircraft was financed through sale leaseback agreement. In Q1 2019, Icelandair took delivery of two Boeing 737 MAX8 and one Boeing 737 MAX9. They were all financed through sale lease back agreements.

When the Boeing 737 MAX aircraft was grounded in March 2019, the remaining delivery schedule of Boeing 737 MAX aircraft to Icelandair was as follows:

	2019	2020	2021
Boeing 737 MAX8	1	2	1
Boeing 737 MAX9	2	3	1
Total	3	5	2

In Q2 2019, Icelandair was expected to take delivery of the other three Boeing 737 MAX aircraft, i.e. one Boeing 737 MAX8 and two Boeing 737 MAX9. However, due to the suspension of the Boeing 737 MAX which was initiated in March 2019 and still persists, the delivery dates of these aircraft and all deliveries of future aircraft is uncertain at this point in time. Icelandair has already secured financing through sale leaseback agreements of one Boeing 737 MAX8 aircraft which was to be delivered in 2019 and one Boeing 737 MAX aircraft of the 2020 delivery schedule. Due to delay in delivery of the two 737 MAX9 aircraft that were to be delivered in 2019, their financing that had previously been secured has now expired.

37. Related parties

Identity of related parties

The Group has a related party relationship with its shareholders with significant influence, subsidiaries, associates, and with its directors and executive officers.

Transactions with management and key personnel

Salaries and benefits of management for their service to Group companies and the number of shares in the Company held by management are specified below. Salaries and benefits include contributions to pension funds.

2019	Salaries and benefits	Pension contri-bution	Incentive payments for previous year	Stock options	Number of shares held at year-end thousands
Board of Directors:					
Úlfar Steindórsson, Chairman	79.1	9.1			12,240
Guðmundur Hafsteinsson	43.9	5.1			
Heiðrún Emilía Jónsdóttir	56.2	7.6			400
Ómar Benediktsson	60.0	8.1			10,765
Svafa Grönfeldt	35.7	4.1			
Ásthildur Margrét Otharsdóttir	11.2	1.3			625
Key employees:					
Bogi Nils Bogason Group CEO	451.6	105.5			1,750
Eight executives of Group companies	1,833.9	304.7	106.9		1,680

Shares held by management and directors includes shares held by companies controlled by them.

Gender ratio for key employees (male / female)	66/33

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Notes, contd.:

37. Related parties, contd.:

2018	Salaries and benefits	Pension contri-bution	Incentive payments for previous year	Stock options	Number of shares held at year-end thousands
Board of Directors:					
Úlfar Steindórsson, Chairman	77.8	8.4			12,240
Guðmundur Hafsteinsson	35.7	3.9			
Heiðrún Emilía Jónsdóttir	35.7	4.6			400
Ómar Benediktsson	59.0	7.5			
Ásthildur Margrét Otharsdóttir	55.5	6.0			
Georg Lúðvíksson	7.5	0.9			
Katrín Olga Jóhannesdóttir	13.4	1.3			13
Key employees:					
Bogi Nils Bogason Group CEO	299.7	79.4	104.1		1,750
Björgólfur Jóhannsson, former Group CEO *	384.6	102.0	73.2		300
Six executives of Group companies	1,215.5	218.4	226.3		261

Shares held by management and directors includes shares held by companies controlled by them.
Gender ratio for key employees (male / female) .... 57 / 43

* Due to change in the position of President and CEO in 2018 the Company had an unpaid liability at the beginning of 2019 due to salaries and salary related cost amounting to USD 671 thousands in accordance with his employment agreement. The amount was expensed in the year 2018.

Transaction with associates

The Group purchased and sold services to associates for immaterial amounts in 2019 and 2018. At year end the Company had a long term receivable on it's associate Lindarvatn amounting to USD 9.3 million. Revenues from the Groups associate Cabo Verde Airlines amounted to USD 37.2 million and expenses USD 1.1 million.

Transaction with shareholders

There are no shareholders with significant influence at year end 2019. Companies which members of the Board and key employees control have been identified as being twenty six. These companies have been identified as related. Transactions with them consist of purchase and sale of services in the ordinary course of business on an arm's length basis which were immaterial in amounts both in 2019 and 2018.

38. Litigations and claims

The Icelandic Competition Authority (ICA) is investigating Icelandair's alleged predatory pricing in 2012-13 which could be considered as a breach of Article 11 of the Icelandic Competition Act. If the investigation will conclude that Icelandair had a dominant position in the market, and abused its position by predatory pricing, the ICA could lay an administrative fine on Icelandair for the alleged breach of the Competition Act. The ICA's decision may be appealed to the Icelandic Competition Appeals Committee. The Company's management is of the opinion that Icelandair's pricing in 2012-13 was fully compliant with the Competition Act. ICA has not acted further in the matter since Icelandair sent its arguments to ICA in November 2015. However, the bankruptcy estate of Wow Air has sued Icelandair and claimed compensation due to alleged predatory pricing in 2012-2016.

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Notes, contd.:

39. Group entities

The Company held ten subsidiaries at year end 2019 which are all included in the consolidated financial statements. The subsidiaries at year end are as follows:

	Ownership interest 2019	2018
Icelandair		
A320 ehf.	100%	100%
Fjárvakur - Icelandair Shared Services ehf. (Icelandair Shared Services)	100%	100%
IceCap Insurance PCC Ltd.	100%	100%
Iceeignir ehf.	100%	100%
Icelandair ehf. *	100%	100%
Other Group entites		
Loftleiðir - Icelandic ehf.	100%	100%
Flugfélag Íslands ehf. (Air Iceland Connect)	100%	100%
FERIA ehf. (VITA)	100%	100%
Iceland Travel ehf.	100%	100%
Flugleiðahótel ehf. (Icelandair Hotels)	100%	100%

* Icelandair Cargo ehf. is a subsidiary of Icelandair ehf.

The subsidiaries further owns twelve subsidiaries that are also included in the consolidated financial statements. Four of those have non-controlling shareholders.

40. Events after the reporting period

In January 2020, on back of news from Boeing on the ongoing process in cooperation with international aviation authorities of returning the Boeing 737-MAX aircraft safely back to service, Icelandair announced that the company does not expect the MAX in operation within its route network during the high season of the summer of 2020. This will have a minimal impact on Icelandair's flight schedule in 2020 as it was set up with the aim to minimize the impact of a possible further delay in the lifting of the MAX suspension. In addition, the Company has already entered into leasing agreements regarding three Boeing 737-800 aircraft and a decision has been made to keep more Boeing 757 aircraft in operation in 2020 than originally planned.

The financial impact of this further suspension will be considerably less this year than in 2019. In addition to the above-mentioned mitigating measures the current leasing agreements were made further in advance than in the year 2019 and are therefore on better terms. The additional aircraft will also be operated with Icelandair crews instead of external crews like last year that were leased with a short notice. The Company has therefore been able to organise its operations in 2020 with this possible scenario in mind.

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Notes, contd.:

41. Ratios

The Group's primary ratios at year end are specified as follows:

	2019	2018
Current ratio	0.86	0.71
Equity ratio	0.29	0.32
Equity ratio without IFRS16	0.36	0.32
Intrinsic value of share capital	10.92	12.07

42. Significant accounting policies

The accounting policies set out in this note have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

a. Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated statements from the date on which control commences until the date on which control ceases. When the Group looses control over subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other compnonents of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(ii) Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of associates, until the date on which significant influence ceases.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Currency exchange

(i) Currency transactions

Transactions in currencies other than functional currencies (foreign currencies) are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective or qualifying cash flow hedges to the extent the hedge is effective, which are recognised in other comprehensive income.

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Notes, contd.:

42. Significant accounting policies, contd.:

(ii) Subsidiaries with other functional currencies

Assets and liabilities of foreign operations and subsidiaries with functional currencies other than USD, including goodwill and fair value adjustments arising on acquisitions, are translated to USD at exchange rates at the reporting date. Income and expenses are translated to USD at exchange rates at the dates of the transactions. Currency differences arising on translation are recognised in other comprehensive income. When an operation is disposed of, in part or in full, the relevant amount in the currency translation reserve within equity is transferred to profit or loss as part of the profit or loss on disposal.

Currency differences are recognised in other comprehensive income, and presented in the translation reserve in equity. However, if the operation is not a wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to the non-controlling interests.

c. Operating income

(i) Transport revenue

Passenger ticket sales are recognised as revenue when transportation has been provided. Sold refundable documents not used within twelve months from the month of sale are recognised as revenue. Non-refundable documents are recognized as revenue two months after expected transport if not used. Revenue from mail and cargo transportation is recognised when transportation has been provided.

(ii) Customer loyalty programmes

For customer loyalty programmes, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits (frequent flyer points) and other components of the sale. Awards can also be generated through transportation services supplied by the Group. Through transportation services the amount allocated to the points is estimated by reference to the fair value of the services for which they could be redeemed, since the fair value of the points themselves is not directly observable. The fair value of the services is calculated taking into account the expected redemption rate and timing of the redemptions. The amounts are deferred and revenue is recognised only when the points are redeemed and the Group has fulfilled its obligations to provide the services. The amount of revenue recognised in those circumstances is based on the number of points that have been redeemed in exchange for services, relative to the total number of points that is expected to be redeemed.

(iii) Aircraft and aircrew lease

Revenue from aircraft and aircrew lease is recognised in profit or loss when the service has been provided.

(iv) Other operating revenue

Revenue includes revenue from tourism, sales at airports and hotels, maintenance service sold and other revenue. Revenue is recognised in profit or loss when the service has been provided or sale completed by delivery of products.

Gain on sale of operating assets is recognised in profit or loss when the risks and rewards of ownership are transferred to the buyer.

d. Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed when the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are epensed when the related service is provided.

Notes, contd.:

42. Significant accounting policies, contd.:

e. Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is, or contains a lease if the contract conveys the right of control the use of identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of lease in IFRS 16.

(i) As a lessee

The Group recognizes a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives receivable.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right of use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment leases, if any and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group´s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group´s estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Notes, contd.:

42. Significant accounting policies, contd.:

e. Leases, contd:

(ii) Short-term leases and leases of low-value

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value asset and short-term leases, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

f. Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group´s right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of discounts on provisions, foreign currency losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether currency movements are in a net gain or net loss position.

42. Significant accounting policies, contd.:

g. Income tax

Income tax comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is expected tax payable on taxable income for the year using tax rates enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that do not affect accounting, or taxable profit or differences relating to investment in subsidiaries.

h. Inventories

Goods for resale and supplies are measured at the lower of cost and net realisable value. The cost of inventories is based on first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

i. Operating assets

(i) Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of operating assets have different useful lives, they are accounted for as separate items (major components) of operating assets.

Any gain and loss on disposal of an item of operating assets (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Aircraft and flight equipment

Aircraft and flight equipment, e.g. aircraft engines and aircraft spare parts, are measured at cost less accumulated depreciation and accumulated impairment losses. When an aircraft is acquired the purchase price is divided between the aircraft itself and engines. Aircraft is depreciated over the estimated useful life of the relevant aircraft until a residual value is met. Engines are depreciated according to actual usage based on cycles flown. When an engine is overhauled the cost of the overhaul is capitalised and the remainder of the cost of the previous overhaul that has not already been depreciated, if any, is expensed in full.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

42. Significant accounting policies, contd.:

(iv) **Depreciation**

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Items of operating assets are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component unless other systematic method is considered appropriate. Leased assets are depreciated over the shorter of the lease term or their useful lives. The estimated useful lives for the current and comparative periods are as follows:

	Useful life
Aircraft and flight equipment	3-17 years
Engines	Cycles flown
Buildings	17-50 years
Other property and equipment	3-20 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

j. Intangible assets and goodwill

(i) **Goodwill and other intangible assets with indefinite useful lives**

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Goodwill, trademarks and airport slots with indefinite useful lives are stated at cost less accumulated impairment losses.

(ii) **Other intangible assets**

Other intangible assets acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative years are as follows:

	Useful life
Software	3 years
Other intangible assets	6-10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iii) **Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Notes, contd.:

42. Significant accounting policies, contd.:

k. Leased assets

Leases of operating assets that transfer to the Group sustantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group´s statement of financial position.

l. Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets or deferred tax assets which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribuiton and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and operating assets are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

m. Financial instruments

(i) Non-derivative financial assets

Trade receivables and debt securities are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and financial assets measured at amortised cost.

Notes, contd.:

42. Significant accounting policies, contd.:

Financial assets at fair value through profit or loss

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL. These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at fair value through profit or loss comprise marketable securities actively managed by the Group's treasury department to address short-term liquidity needs.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets measured at amortised cost comprise cash and cash equivalents and trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities other than derivatives comprise loans and borrowings and trade and other payables.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(iv) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency, fuel price and interest rate risk exposures (see note 34). Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss. The Group holds no trading derivatives.

42. Significant accounting policies, contd.:

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that ultimately could affect reported profit or loss.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and accumulated in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period during which the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the hedged future cash flows is no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Net investment hedges

When a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of foreign exchange gains and losses is recognised in other comprehensive income and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of foreign exchange gains and losses on the non-derivative is recognised immediately in profit or loss. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

n. Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Repurchase and reissue of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

Notes, contd.:

42. Significant accounting policies, contd.:

o. Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset, and that loss event had an impact on the estimated future cash flows of that asset which can be estimated reliably.

Objective evidence that financial assets are impaired includes:
Default or delinquency by a debtor;
Restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
Indications that a debtor or issuer will enter bankruptcy;
Adverse changes in the payment status of borrowers or issuers;
The disappearance of an active market for a security because of financial difficulties; or
Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangibles assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respet of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group of units) on a pro rata basis.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.
An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes, contd.:

42. Significant accounting policies, contd.:

p. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Overhaul commitments relating to aircraft under operating leases

With respect to the Group´s operating lease agreements, where the Group has a commitment to maintain the aircraft, provision is made during the lease term for the obligation based on estimated future cost of major airframe and certain engine maintenance checks by making appropriate charges to the profit or loss calculated by reference to the number of hours or cycles operated.

Provisions are entered into the statement of financial position among non-current and current payables, as applicable.

q. Deferred income

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

Icelandair's frequent flyer program

Frequent flyer points earned or sold are accounted for as a liability on a fair value basis of the services that can be purchased for the points. The points are recognized as revenue when they are utilized or when they expire.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date.

r. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for treasury shares held, for the effects of all dilutive potential ordinary shares.

s. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The major revenue-earning assets of the Group is the aircraft fleet, the majority of which is registered in Iceland. Since the Group's aircraft fleet is employed flexibly across its route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

Notes, contd.:

42. Significant accounting policies, contd.:

s. Segment reporting contd.:

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

Segment results, reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, and income tax assets and liabilities.

43. Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group´s consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- IFRS 17 Insurance Contracts.

Corporate Governance Statement

The framework

The Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ Iceland and the Confederation of Icelandic Employers, along with the Company's Articles of Association, and rules for Issuers of Securities listed on the NASDAQ Iceland, make up the framework for Icelandair Group's Corporate Governance practices. The Company's Articles of Association are accessible on the Company's website and the guidelines and the rules for Issuers are on the website of NASDAQ Iceland.

The Company complies in all main respects to the rules mentioned above. No government organization has found the Company to be in breach with any rule or regulation regarding corporate governance.

Internal audit and risk management

The Group's Audit Committee oversees how the management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The committee shall oversee the annual accounts of the Company and the Group's consolidated accounts. The committee is responsible for evaluation of the independence and the eligibility of both the Company's auditor and auditing firm. The committee shall make suggestions to the Board of Directors regarding the selection of the Company's auditor. The Audit Committee held eleven meetings in 2019.

Audit Commitee:
Heiðrún Jónsdóttir, Chairman
Guðmundur Hafsteinsson
Svafa Grönfeldt

Values and code of ethics and corporate responsibility

The Company's values are:
Passion
Simplicity
Responsibility

On 25 May 2009 the Board of Directors approved a Code of Ethics which was amended on 5 January 2011 and 18 November 2016. The Code of Ethics is accessible to all Company's employees through the Company's intranet, MyWork.

Compensation Committee

The purpose of the Compensation Committee is to avoid placing the Company's management in control of their own remuneration and, furthermore, to ensure that the management's remuneration is structured so as to serve the long-term interests of shareholders. The main tasks of the Compensation Committee are policy making with respect to the management's performance related bonuses, including stock options. The Committee conducts evaluations of management remuneration and monitors the management's acquisition of stock in the Company. The Compensation Committee meets on average four times a year.

Compensation Committee members:
Úlfar Steindórsson, Chairman
Ómar Benediktsson

Corporate Governance Statement, contd.:

Nomination Committee

Icelandair Group operates a Nomination Committee which has the role to be advisory in the selection of members of the Board of Directors and it will bring its proposals for the Annual General Meeting or other Shareholders' meetings where election to the Board of Directors is on the agenda.

The Nomination Committee shall put forward its rationalized opinion concurrently to the notification of the AGM or as soon as possible in conjunction with other shareholder meetings. The committee's opinion shall be made available to shareholders in the same way as other proposals to be submitted to the meeting. The committee operates according to rules of procedures which are set by the committee itself and approved by the Board of Directors. The Nomination Committee shall make changes to its rules of procedures accordingly or put them forward unaltered and have approved by the Board of Directors annually.

The Nomination Committee consists of three members. The Shareholders meeting elects two members, one man and one woman, which are nominated by shareholders. When the Shareholders Meeting has elected members, the Board of Directors nominates one member to the committee.

All members shall be independent of the Company and its executives. The member nominated by the Board of Directors shall be independent of the Company's largest shareholders. The same criteria shall apply to the assessment of independence of Committee members as to the assessment of the independence of Board Members according to The Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, SA Business Iceland and Nasdaq Iceland. The Nomination Committee held six meetings in 2019 and furthermore had meetings with Icelandair Group's management team and the largest shareholders.

Nomination Committee members:
- Hjörleifur Pálsson, Chairman
- Helga Árnadóttir
- Úlfar Steindórsson

The Board of Directors and Executive Committee

Board of Directors

Úlfar Steindórsson, Chairman
Ulfar Steindorsson is CEO and Chairman of Toyota in Iceland ehf. and Ju ehf. He was CEO of Primex ehf. in Siglufjordur from 2002 to 2004 and CEO of the New Business Venture Fund from 1999 to 2002. Ulfar is Chairman of the Board of Bilautleigan ehf., Okkar bilaleiga ehf., Motormax, Kraftvélar ehf. og Kraftleigan ehf. and TK bilar ehf. He is Board member of Toyota in Iceland ehf., Bláa lónið ehf., Fagkaup ehf., UK fjarfestingar ehf., Skorri ehf., Keila ehf. and My Car ehf. Ulfar holds a Cand. Oecon. degree from the University of Iceland and an MBA from Virginia Commonwealth University. He joined the Board of Icelandair Group on 15 September 2010.

Ómar Benediktsson, Deputy Chairman
Omar Benediktsson is CEO of Farice ehf. He is a Board Member of Landsnet hf. and Husafell Resort ehf. Omar has held various positions in the tourism and aviation industry in the past 30 years, for example as a CEO of Island Tours, Islandsflug, Air Atlanta and SmartLynx airlines, in addition to various board positions. Omar holds a Cand. Oecon. degree from the University of Iceland. He joined the Board on 3 March 2017.

Guðmundur Hafsteinsson, Board Member
Gudmundur Hafsteinsson is an investor and enterpreneur and previously lead product development for Google Assistant at Google. He joined Google in 2014 subsequent to the merger of Google and Emu, a chat-based virtual assistant start-up he founded in 2012. Prior to the founding of Emu, he was VP Product at Siri, and stayed on after the acquisition by Apple through the launch of Siri on iPhone 4S. Prior to Siri/Apple, Gudmundur was a Senior Product Manager at Google, where he managed the initial launches of Google Maps for mobiles and Google Voice Search. Gudmundur holds an MBA degree from MIT and a BSc. degree in Electrical and Computer Engineering from the University of Iceland. He joined the Board of Icelandair Group on 8 March 2018.

Corporate Governance Statement, contd.:

Board of Directors, contd.:

Heidrun Jonsdottir, Board Member

Heidrun Jonsdottir is an attorney. She is a member of the Board of Directors at Islandsbanki and Reginn. Heidrun is the former Chairman of the Board of Directors at Gildi Pension Fund, Nordlenska and Islensk Verdbref and also a former Vice Chairman of the Icelandic Bar Association. She is a former member of the Board of Siminn hf., Olis and Istak. Heidrun was the Public Relations Officer of Landssiminn hf. from 2001 to 2003, Managing Director and Partner at Lex Legal Services from 2003 to 2005. From 2006 until 2012 she was Vice President of legal affairs and public relations at Hf. Eimskipafelag Islands. Heidrun has a law degree from the University of Iceland, is a District Court Attorney and has finished an Advanced Management Program from IESE Business School in Barcelona. She joined the Board of Icelandair Group on 8 March 2018.

Svafa Grönfeldt, Board Member

Svafa Grönfeldt is a founding member of MIT's innovation accelerator DesignX, and a co-founder of the MET fund, a Cambridge based seed investment fund. Svafa is a member of the Board of Directors at Össur since 2008 and Origo since 2019. Previous positions include Chief Organizational Development Officer of Alvogen, President of Reykjavik University and Deputy to the CEO of Actavis Group. Svafa holds a PhD in Industrial Relations from London School of Economics. She joined the Board of Icelandair Group on 8 March 2019.

Executive committee

Bogi Nils Bogason, President & CEO

Bogi Nils started his career within Icelandair Group as CFO in October 2008. He was the CFO of Askar Capital from January 2007 until he joined Icelandair Group and the CFO of Icelandic Group from 2004-2006. Bogi Nils served as an auditor and partner at KPMG in Iceland during the years from 1993-2004. Bogi Nils holds a Cand Oecon degree in Business from the University of Iceland and became licensed as a chartered accountant in 1998. He was appointed President & CEO of Icelandair Group on 4 December 2018.

Arni Hermannsson, Managing Director Loftleidir Icelandic
Birna Ósk Einarsdóttir, Chief Commercial Officer
Elísabet Helgadóttir, Chief Human Resources Officer
Eva Sóley Guðbjörnsdóttir, Chief Financial Officer
Gunnar Már Sigurfinnsson, Managing Director Icelandair Cargo
Ivar S. Kristinsson, Chief Fleet and Network Officer
Jens Þórðarson, Chief Operating Officer
Tomas Ingason, Chief Information Officer

Board of Directors

The Company's Board of Directors exercises the supreme authority in the Company's affairs between shareholders' meetings, and it is entrusted with the task of ensuring that the organisation and activities of the Company's operation are at all times in correct and proper order.

The Board of Directors is instructed in the Company's Articles of Association to appoint a President and CEO for the Company and decide the terms of his or her employment. The Board of Directors and President and CEO are responsible for the management of the Company.

Corporate Governance Statement, contd.:

Board of Directors, contd.:

The Company's Board of Directors must at all times ensure that there is adequate supervision of the Company's accounts and the safeguarding of its assets and shall adopt working procedures in compliance with the Companies Act. Only the Board of Directors may assign powers of procuration on behalf of the Company. The signatures of the majority of the members of the Board are required to bind the Company. The President and CEO has charge of the day-to-day operation of the Company and is required in his work to observe the policy and instructions set out by the Company's Board of Directors. Day-to-day operation does not include measures which are unusual or extraordinary. Such measures can only be taken by the President and CEO with the specific authorization of the Board of Directors, unless it is impossible to await the decision of the Board without seriously disadvantaging the operation of the Company. In such instances, the President and CEO is required to consult with the Chairman of the Board, if possible, after which the Board of Directors must immediately be notified of the measures. The President and CEO shall ensure that the accounts and finances of the Company conform to the law and accepted practices and that all assets belonging to the Company are securely safeguarded. The President and CEO is required to provide the members of the Board of Directors and Company auditors with any information pertaining to the operation of the Company which they may request, as required by law.

The Company's Board of Directors consists of five members elected at the annual general meeting for a term of one year. Those who intend to stand for election to the Board of Directors must inform the Board in writing of their intention at least seven days before the annual general meeting, or extraordinary shareholders’ meeting at which elections are scheduled. Only those who have informed the Board of their candidacy are eligible.

The Board of Directors elects a Chairman and Deputy Chairman from its members, and otherwise allocates its obligations among its members as needed. The Chairman calls Board meetings. A meeting must also be held if requested by a member of the Board of Directors or the President and CEO. Meetings of the Board are valid if attended by a majority of its members. However, important decisions shall not be taken unless all members of the Board have had an opportunity to discuss the matter, if possible. The outcome of issues is decided by force of vote, and in the event of an equality of votes, the issue is regarded as rejected. The President and CEO attends meetings of the Board of Directors, even if he or she is not a member of the Board, and has the right to participate in discussions and submit proposals unless otherwise decided by the Board in individual cases. A book of minutes is kept of proceedings at meetings and must be signed by participants in the meeting. A Board member who disagrees with a decision made by the Board of Directors is entitled to have his or her dissenting opinion entered in the book of minutes. The same applies to the President and CEO. The Chairman is responsible for the Board's relations with the shareholders and he shall inform the Board on the views of the shareholders.

On 12 September 2007 the Board of Directors approved Rules on Working Procedures for the Board which were amended on 10 August 2012 and 9 February 2018. The Rules on Working Procedures are accessible to the Board of Directors and the management through the Board's intranet, Admincontrol. In accordance with article 14 of the Rules on Working Procedures the Board of Directors must annually evaluate its work, size, composition and practices, and must also evaluate the performance of the CEO and others responsible for the day-to-day management of the Company and its development. The annual performance assessment is intended to improve working methods and increase the efficiency of the Board. The assessment entails e.g. evaluation of the strengths and weaknesses of the Board’s work and practices and takes into consideration the work components which the Board believes may be improved.

The Board of Directors elects the members of the Compensation Committee and the Audit Committee. These sub-committees adhere to the Rules on Working Procedures. The Nomination Committee has its own Rules of Procedures which are approved by the Board. The Board of Directors convened 33 times during the year and all Board Members attended almost all meetings. All the current members of the Board of Directors are independent from the Company. Ásthildur Margrét Otharsdóttir, who was a board member until 8 March 2019, was not independent from the Company. All Board members were independent of the Company’s major shareholders in 2019.

Non-Financial Reporting

Business Model

Icelandair Group has operated in the international airline and tourism sectors for decades. The Company, however, has been in the process since 2018 of shifting towards a sheer focus on aviation. Its core business is built around Icelandair's route network and the unique geographical location of Iceland which serves as a connecting hub between Europe and North America. Sustainable value creation for the Company's shareholders and other stakeholders lies at the heart of Icelandair Group's business model. Five strategic pillars support the Company's vision of "Bringing the spirit of Iceland to the world" and its mission of "Delivering smooth and enjoyable travel experiences". These pillars are: To ensure a culture of passion and performance, becoming the most customer-focused airline in the Company's markets, achieving excellence in all operations, driving sustainable and profitable growth, and to become an industry leader in responsibility.

Environment

Icelandair Group is an environmentally-conscious company, committed to addressing its environmental responsibilities. Icelandair is certified to the highest level of the IEnvA environmental certification program from IATA, which requires demonstration of ongoing environmental performance improvements. Icelandair Hotels are certified to the ISO14001 environmental standard.

Icelandair Group's environmental impact is not limited to its flight operations. It also involves ground facilities, offices, vehicles and maintenance areas. The Company's goal is to maximise the use of green energy, increase energy efficiency and minimise waste in all its operations by embracing sustainable solutions.

Icelandair Group's Environmental Policy describes the Company's approaches to protecting and preserving the environment. All the Company's employees are responsible for compliance with the policy. Management at all the Company's subsidiaries and entities have adopted guidelines and procedures to comply with the Company's Environmental Policy.

Minimising the environmental impact of its operations is an important part of Icelandair Group's business plan with the focus on employing sustainable practices and ensuring optimal use of the resources at our disposal.

Icelandair Group is committed to minimising its impact on the environment by continuously improving the Company's environmental performance, by using sustainable materials and disposing of them in a responsible way, by conducting business with environmentally friendly suppliers and by adhering to environmental protection principles.

In addition to compliance with applicable laws and regulations, the Company demonstrates its commitment to this policy through:

– Minimising carbon footprint and raising awareness
– Reducing waste by increasing recycling
– Promoting responsible use of resources
– Increasing the use of environmentally friendly products and services

Icelandair Group is committed to supporting continuous improvements by setting measurable targets, raising awareness and benchmarking performance.

Non-Financial Reporting, contd.:

Environment, contd.:

Icelandair is in cooperation with Klappir – Green Solutions to track and follow the environmental aspects of Icelandair, to foster the data, ensure traceability, integrity, transparency, usefulness and reliability of the data set.

One of the environmental aspects Icelandair manages is waste. The amount of recycled waste has increased in the past few years as a result of various projects to improve waste recycling overall within the Company. Icelandair continuously seeks to find new ways to recycle and increase recycling.

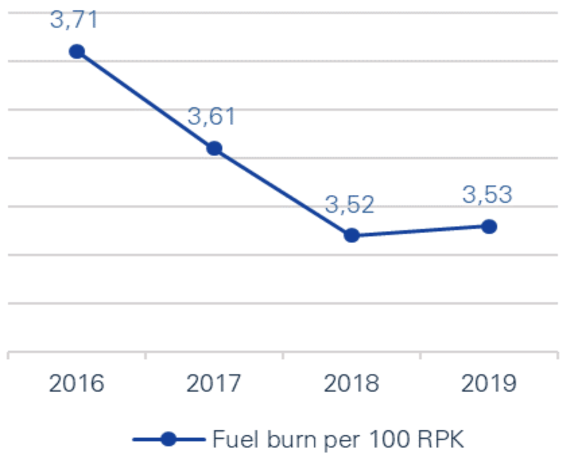
Icelandair is currently implementing more eco-friendly on-board products, working towards minimizing single-use plastics in the aircraft cabins and seeking ways to minimise waste on-board.

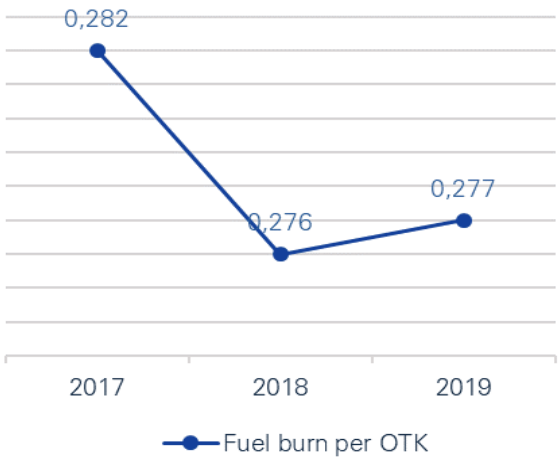
Icelandair and Air Iceland Connect have offered passengers the option to offset the carbon footprint of their air travel since September 2019. The new carbon calculator makes it easy to calculate the carbon footprint associated with each flight, and the contribution necessary to offset it. Contributions from passengers made through the carbon calculator are used by Kolvidur – Iceland Carbon Fund to cultivate forests in Iceland. The contributions from passengers in the year 2019 are equivalent to planting about 5,500 trees.

In recent years, many changes have been made to Icelandair's operations to reduce CO2 emissions. These include implementation of winglets on aircrafts, operational manoeuvres during descent and landing and an active fuel monitoring program as well as training of pilots. Those actions have shown visible results in increased fuel efficiency and therefore reduced emissions. However, the suspension of the Boeing 737-MAX aircraft, which are more fuel-efficient than Icelandair's current fleet, impacts the results for fuel burn per 100 revenue passenger kilometres (RPK) and fuel burn per Operational tonne kilometre (OTK) in 2019.

Non-Financial Reporting, contd.:

Environment, contd.:





Society

Icelandair Group is proud of its role in the Icelandic community and focuses on creating sustainable value for its stakeholders by integrating a wide range of efforts to ensure social responsibility.

Icelandair Group is a leading shareholder of the Icelandic Tourism Fund, an investment fund focused on new projects that increase the diversity of Icelandic tourism and strengthens its infrastructure. A key focus is on all-year round projects that provide additional recreational options for tourists and make better use of the existing infrastructure, in particular over the winter season.

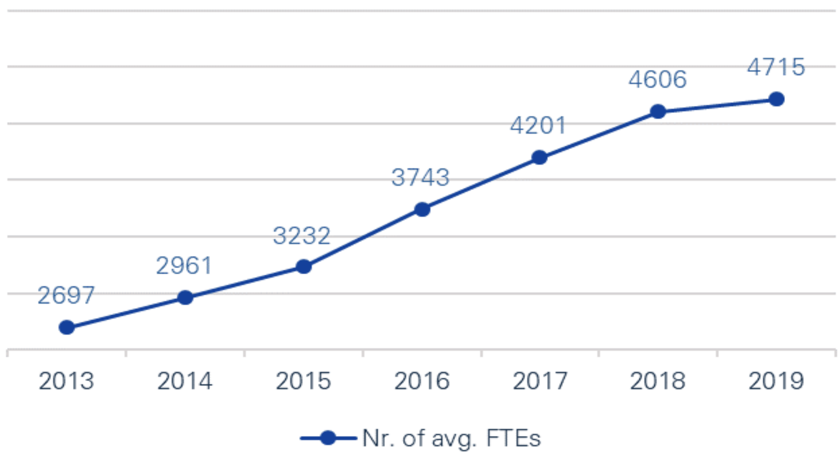
The main objective of Icelandair's Special Children Travel Fund, established in 2003, is to help children suffering from long-term illnesses or other difficult circumstances to travel with their families. The fund is supported both directly by Icelandair and through the generous donations of its customers. In 2018, 40 children and their families received travel grants from the fund to go on their “dream journey”.

Icelandair Group has since December 2014 been one of the main sponsors of ICE-SAR, the Icelandic Search and Rescue operation. The Company’s objective is to provide support to enable the organisation to engage in efficient accident prevention and rescue efforts and to enhance the safety of tourists travelling in Iceland. The purpose of the co-operation is to represent an important factor in promoting safer tourism by various means, including the sponsorship and marketing of the www.safetravel.is website to tourists through Icelandair Group’s distribution channels. Icelandair Group’s subsidiary, Icelandair Hotels, promotes safer tourism in all its properties and has conversations with its guests by distributing safe travel cards and educate them about the road system and weather conditions, for example.

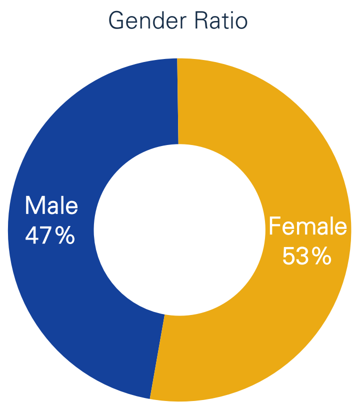
Non-Financial Reporting, contd.:

Employees

After a turbulent year characterized by unparalleled external events both internationally and domestically Icelandair Group (Icelandair) is experiencing a year of rebalancing and refocus from where it is set to return to a profitable trajectory guided by a new strategic vision. Against this backdrop the number of full-time equivalents (FTEs) only grew 1% from the year before compared to a compounded annual growth of 8% over the past seven years.



Icelandair Group's People & Culture (P&C) strategy emphasizes equality and non-discrimination and embraces diversity. This focus, which ensures that employees are provided with equal opportunities and equal rights, is an integral part of the Equal Rights Policy and Equal Rights Plan which has been approved by the Executive Committee. The numbers speak for themselves as the gender ratio is almost equal – with male/female split of 47/53 out of 100.



According to the Gender Equality Act No. 10/2008 the Company has implemented an Equal Pay Policy in order to improve and advocate gender equality and acquire an Equal Pay Certification. Icelandair actively promotes this legislation which prohibits any gender-based discriminatory practices and requires all employees who work in roles of same value to be paid the same. Icelandair Group and its subsidiaries have been certified and received the Equal Pay Certificate.

Non-Financial Reporting, contd.:

Employees, contd.:

Icelandair seeks to attract talented and qualified employees to ensure that the Company can meet and exceed its current and future operational challenges while ensuring and facilitating a good and progressive working culture in which the employees can both thrive and perform at their best.

Therefore, it is imperative that the employees of Icelandair have and display a growth mindset where they are both willing and able to learn and develop so both may gain. To that end, Icelandair's People & Culture has taken measures to supply its diverse employee groups with access to market leading learning and development material. By the same token, Icelandair upholds high safety and security standards and has in place detailed action plans designed to achieve these goals with mandatory training carried out for all employees working roles that are designated as part of aviation safety and work environment that is considered risk to occupational health and safety. All new employees go through a company orientation which includes health and safety training when they commence their employment with the Company.

General health and well-being of Icelandair employees is a priority where the Company endeavours towards providing attractive and exciting place to work where people can thrive and challenge themselves to perform at their best. The Company has in place a comprehensive Health & Attendance Policy under which – among other things – Icelandair offers various health-related programs and initiatives. In its effort to promote a healthy workplace for all, Icelandair has taken action against bullying and gender-related harassment and violence as a part of on-going effort to eradicate such employee behaviour.

At last but not least, Icelandair strives to ensure that all employees feel like they are part of one team. This manifest itself in the principles which provide the foundation of Icelandair's strong company culture characterized by simplicity, responsibility and passion. This is followed up and tracked by annual workplace audit surveys which measures various indicators such as employee engagement, leadership, company performance in various areas and adherence to relevant policies and practices. The survey also monitors and evaluates Icelandair's People & Culture strategy and how specific interventions in P&C policies have made an impact post prior workplace audit. This past year's audit showed that 59,5% of the employee population was both engaged and committed, which means that their attitude was positive both towards the job that they perform and towards the company that they work for. This measure is further supported with a high net employee promotion score of 43 out of 100 (% of promotors less % of detractors). These two key measures from the workplace audit both show and reinforce the positive organizational impact of the P&C strategy.

Icelandair's new strategic vision – which was introduced in 2019 – includes multiple strategic initiatives that all align with the Company's vison and mission. A culture of passion and performance is one of these initiatives where People & Culture is taking the lead in Icelandair which places employee matters at the top of the management agenda.

Human Rights Policy

Icelandair Group respects human rights, as set out in the UN Universal Declaration of Human Rights and requires all its employees to treat others with trust, dignity, respect, fairness and equity. Icelandair has implemented an e-learning module on the Company‘s Code of Conduct for all new employees which is mandatory from 2020.

All cabin crew have been trained in relation to human trafficking awareness and preventive actions. The Company respects fair labour practices and contractors, sub-contractors or work agencies working for Icelandair Group shall ensure that wages, wage-related obligations and safety in the workplace all comply with Icelandair Group's standards.

Importance is placed on ensuring that employees respect the equal rights policy and conduct themselves within its spirit. All discrimination, such as on the basis of gender, age, origin, religion, operating field, opinions or position in other respects, is not permitted.

Early 2018, Icelandair Group sharpened its policy and actions against bullying, and sexual and gender-related harassment and violence. The policy and its related actions include clear procedures and preventive measures. Information on the policy can be accessed on the Company's intranet, together with a plan of action that details the options available to employees who feel victimised. All managers received appropriate training and open lectures were held in 2019, open for all employees to attend.

Non-Financial Reporting, contd.:

Anti-corruption and bribery policy

Icelandair Group conducts all its business in an honest and ethical manner and the integrity of each and every member of staff serves to maintain the good reputation and trust of the Company. All persons, representing or performing services for or on behalf of Icelandair Group must comply with applicable anti-bribery and anti-corruption legislation and policies, and Icelandair Group's Code of Conduct.

Futher information

Further information about Icelandair Group's Corporate Social Responsibility and non-financial aspects of the business is published in the Company's Annual Report as well as on the Company's website, www.icelandairgroup.is.

Quarterly statements (unaudited)

Unaudited summary of the Group's operating results by quarters:

Year 2019	Q1	Q2 Restated	Q3	Q4	Total
Operating income	244,218	407,152	533,943	319,182	1,504,495
Operating expenses excluding depreciation	(270,594)	(392,969)	(395,975)	(306,981)	(1,366,519)
Operating (loss) profit bef. depr. (EBITDA)	(26,376)	14,183	137,968	12,201	137,976
Depreciation	(37,587)	(33,901)	(56,901)	(48,884)	(177,273)
Operating (loss) profit (EBIT)	(63,963)	(19,718)	81,067	(36,683)	(39,297)
Net finance expense	(9,294)	(8,982)	(4,150)	(3,524)	(25,950)
Share of profit (loss) of associates	405	(7,420)	(450)	111	(7,354)
(Loss) profit before income tax	(72,852)	(36,120)	76,467	(40,096)	(72,601)
Income tax	13,355	6,240	(15,007)	10,234	14,822
(Loss) profit	(59,497)	(29,880)	61,460	(29,862)	(57,779)
Other comprehensive profit (loss)	9,539	(6,608)	8,546	11,469	22,946
Total comprehensive (loss) income	(49,958)	(36,488)	70,006	(18,393)	(34,833)
Net cash from (used in) operating activities	72,941	48,513	(28,619)	27,043	119,878
Net cash (used in) from investing activities	(53,592)	(37,806)	(9,228)	(38,031)	(138,657)
Net cash from financing activities	(28,728)	(124,642)	34,389	74,041	(44,940)

Year 2018	Q1	Q2	Q3	Q4	Total
Operating income	267,624	398,901	545,193	298,800	1,510,518
Operating expenses excluding depreciation	(285,835)	(384,208)	(430,200)	(333,796)	(1,434,039)
Operating (loss) profit bef. depr. (EBITDA)	(18,211)	14,693	114,993	(34,996)	76,479
Depreciation	(28,002)	(34,491)	(36,698)	(34,256)	(133,447)
Operating (loss) profit (EBIT)	(46,213)	(19,798)	78,295	(69,252)	(56,968)
Net finance income (expense)	1,408	(11,975)	(1,575)	(452)	(12,594)
Share of profit (loss) of associates	1,266	293	213	(20)	1,752
(Loss) profit before income tax	(43,539)	(31,480)	76,933	(69,724)	(67,810)
Income tax	9,011	5,752	(14,904)	12,381	12,240
(Loss) profit	(34,528)	(25,728)	62,029	(57,343)	(55,570)
Other comprehensive profit (loss)	7,583	611	(16,329)	(46,722)	(54,857)
Total comprehensive (loss) income	(26,945)	(25,117)	45,700	(104,065)	(110,427)
Net cash from (used in) operating activities	67,115	60,062	(50,635)	(14,989)	61,553
Net cash used in investing activities	(129,159)	(60,861)	(76,540)	136,627	(129,933)
Net cash from financing activities	30,802	52,412	62,976	3,146	149,336

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Quarterly statements (unaudited), contd.:

Unaudited summary of the Group's operating results by quarters:

	Q1	Q2	Q3	Q4	Total
Year 2019		**As reported**			
Operating income	248,602	402,767	533,943	319,183	1,504,495
Operating expenses excluding depreciation	(263,270)	(377,527)	(401,302)	(324,420)	(1,366,519)
Operating (loss) profit bef. depr. (EBITDA)	(14,668)	25,240	132,641	(5,237)	137,976
Depreciation	(44,911)	(49,343)	(51,574)	(31,445)	(177,273)
Operating (loss) profit (EBIT)	(59,579)	(24,103)	81,067	(36,682)	(39,297)
Net finance expense	(9,294)	(8,982)	(4,150)	(3,524)	(25,950)
Share of profit (loss) of associates	405	(7,420)	(450)	111	(7,354)
(Loss) profit before income tax	(68,468)	(40,505)	76,467	(40,095)	(72,601)
Income tax	13,355	6,239	(15,007)	10,235	14,822
(Loss) profit	(55,113)	(34,266)	61,460	(29,860)	(57,779)
Other comprehensive profit (loss)	9,539	(6,608)	8,546	11,469	22,946
Total comprehensive (loss) income	(45,574)	(40,874)	70,006	(18,391)	(34,833)
Net cash from (used in) operating activities	72,941	48,513	(28,619)	27,043	119,878
Net cash (used in) from investing activities	(53,592)	(37,806)	(9,228)	(38,031)	(138,657)
Net cash (used in) from financing activities	(28,728)	(124,642)	34,389	74,041	(44,940)

Consolidated Financial Statements of Icelandair Group hf. 2019 74 Amounts are in USD thousand

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