Icelandair Group hf.

Consolidated Financial Statements for the year 2014

USD

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

Contents

Endorsement and Statement by the Board of Directors and the CEO

Operations in the year 2014

The 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.

Profit for the year 2014 amounted to USD 66.5 million and total comprehensive income amounted to USD 38.0 million according to the consolidated statement of comprehensive income. Total equity at year end 2014 amounted to USD 365.1 million, including share capital of USD 40.6 million, according to the consolidated statement of financial postition. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity during the year.

The Board of Directors proposes a dividend payment to shareholders in 2015 of ISK 2.500 million, equal to USD 19.6 million, which represents 30% of profit for the year 2014.

Share capital and Articles of Association

The nominal value of the Company's issued share capital amounted to ISK 5.0 billion at year-end, of which the Company held treasury shares of ISK 25 million. 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 OMX Iceland). Companies can aquire and hold up to 10% of the nominal value of treasury shares according to the Icelandic Company's Act.

The Company's Board of Directors comprises five members 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 five 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 2014 was 2,099 which is an increase of 266 during the year. At year end 10 largest shareholders were:

Name	Shares in ISK thousand	Shares in %
Stefnir Sjóðir	891,163	17.82
Lífeyrissjóður verslunarmanna	729,136	14.58
Lífeyrissjóður starfsmanna ríkisins A deild og B deild	476,702	9.53
Gildi - lífeyrissjóður	265,042	5.30
Stapi lífeyrissjóður	179,977	3.60
Stafir lífeyrissjóður	179,615	3.59
Íslandssjóðir - IS Hlutabréfasjóður	163,489	3.27
Sameinaði lífeyrissjóðurinn	147,360	2.95
Íslandsbanki hf.	120,200	2.40
Landsbréf - Úrvalsbréf	117,636	2.35
	3,270,320	65.41
Other shareholders	1,704,220	34.08
Treasury shares	25,460	0.51
Total issued shares	5,000,000	100.00

Further information on matters related to share capital is disclosed in note 25. Additional information on shareholders are provided on the Company's webside www.icelandairgroup.com.

Endorsement and statement by the Board of Directors and the CEO, continued:

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 the shareholders, Group companies, employees and other stakeholders and will in the long run produce satisfactory profits on shareholders' investment.

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 OMX 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.

Corporate Governance exercised in Icelandair Group hf. ensures sound and effective control of the Company´s affairs and a high level of business ethics.

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 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 31.

Statement by the Board of Directors and the CEO

The consolidated financial statements for the year ended 31 December 2014 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies.

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 Company for the year 2014, its assets, liabilities and consolidated financial position as at 31 December 2014 and its consolidated cash flows for the year 2014.

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 2014 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, 5 February 2015.

Board of Directors:

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

CEO:

Björgólfur Jóhannsson

Independent Auditors' Report

To the Board of Directors and Shareholders of Icelandair Group hf.

We have audited the accompanying consolidated financial statements of Icelandair Group hf., which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

The Board of Director's and CEO's Responsibility for the Consolidated Financial Statements
The Board of Directors and CEO are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Icelandair Group as at 31 December 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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

Reykjavík, 5 February 2015.

KPMG ehf.

Alexander G. Eðvardsson
Auður Þórisdóttir

Consolidated statement of profit or loss and other comprehensive income for the year 2014

	Notes	2014	2013
Continuing operation			
Operating income			
Transport revenue	7	811,002	702,882
Aircraft and aircrew lease		74,754	117,969
Other operating revenue	7	227,541	202,106
		1,113,297	1,022,957
Operating expenses			
Salaries and other personnel expenses	8	273,161	239,432
Aircraft fuel		271,871	242,630
Aircraft and aircrew lease		26,653	34,570
Aircraft maintenance expenses		75,884	81,475
Aircraft handling, landing and communication		82,888	74,316
Other operating expenses	8	228,502	206,824
		958,959	879,247
Operating profit before depreciation and amortisation (EBITDA)		154,338	143,710
Depreciation and amortisation	9	(75,329)	(70,699)
Operating profit (EBIT)		79,009	73,011
Finance income		7,194	6,777
Finance costs		(6,079)	(8,702)
Net finance income (costs)	10	1,115	(1,925)
Share of loss of associates	17	(216)	(38)
Profit before tax		79,908	71,048
Income tax	20	(15,483)	(14,630)
Profit from continuing operations		64,425	56,418
Discontinued operation			
Profit from discontinued operation, net of tax	6	2,074	0
Profit for the year		66,499	56,418
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Currency translation differences		(5,403)	4,204
Net (loss) profit on hedge of investment, net of tax		(15)	169
Net investment hedge reclassified to profit or loss		719	(111)
Effective portion of changes in fair value of cash flow hedge, net of tax		(23,833)	1,230
Other comprehensive (loss) profit for the year		(28,532)	5,492
Total comprehensive income for the year		37,967	61,910

The notes on pages 11 to 46 are an integral part of these consolidated financial statements.

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Consolidated statement of profit or loss and other comprehensive income for the year 2014, contd;

	Notes	2014	2013
Profit attributable to:			
Owners of the Company		66,509	56,386
Non-controlling interests		(10)	32
Profit for the year		66,499	56,418
Total Comprehensive income attributable to:			
Owners of the Company		37,998	61,928
Non-controlling interests		(31)	(18)
Total comprehensive income for the year		37,967	61,910
Earnings per share:			
Basic earnings per share expressed in USD cent per share	26	1.34	1.13
Diluted earnings per share expressed in USD cent per share	26	1.34	1.13
Earnings per share from continuing operations:			
Basic earnings per share (USD)	26	1.30	1.13
Diluted earnings per share (USD)	26	1.30	1.13

The notes on pages 11 to 46 are an integral part of these consolidated financial statements.

Consolidated Financial Statements of Icelandair Group hf. 2014 7 Amounts are in USD thousand

Consolidated Statement of Financial Position as at 31 December 2014

	Notes	2014	2013
Assets:			
Operating assets	11-14	319,340	299,197
Intangible assets and goodwill	15-16	175,973	179,676
Investments in associates	17	2,324	2,035
Deferred cost	18	153	258
Receivables and deposits	19	16,413	15,791
Non-current assets		514,203	496,957
Inventories	21	22,906	22,166
Trade and other receivables	22	96,470	114,259
Short term investments	23	30,879	7,955
Cash and cash equivalents	24	184,762	191,538
Current assets		335,017	335,918
Total assets		849,220	832,875
Equity:			
Share capital		40,576	40,576
Share premium		154,705	154,705
Reserves		3,195	31,706
Retained earnings		166,371	118,856
Equity attributable to equity holders of the Company	25	364,846	345,843
Non-controlling interests		208	239
Total equity		365,055	346,082
Liabilities:			
Loans and borrowings	27	49,671	78,489
Payables	28	8,291	23,742
Deferred tax liabilities	20	24,681	27,995
Non-current liabilities		82,643	130,226
Loans and borrowings	27	12,263	43,528
Trade and other payables	29	214,315	159,504
Deferred income	30	174,944	153,535
Current liabilities		401,522	356,567
Total liabilities		484,165	486,793
Total equity and liabilities		849,220	832,875

The notes on pages 11 to 46 are an integral part of these consolidated financial statements.

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Consolidated Statement of Changes in Equity for the year 2014

	Attributable to equity holders of the Company						
2013	**Share capital**	**Share premium**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2013	40,576	154,705	26,164	74,230	295,674	257	295,932
Total comprehensive income			5,542	56,386	61,928	(18)	61,910
Dividend (0.24 USD cent per share)				(11,760)	(11,760)		(11,760)
Balance at 31 December 2013	40,576	154,705	31,706	118,856	345,842	239	346,082
2014							
Balance at 1 January 2014	40,576	154,705	31,706	118,856	345,842	239	346,082
Total comprehensive income			(28,511)	66,509	37,998	(31)	37,967
Dividend (0.38 USD cent per share)				(18,994)	(18,994)		(18,994)
Balance at 31 December 2014	40,576	154,705	3,195	166,371	364,846	208	365,055

Information on changes in other reserves are provided in note 25.

The notes on pages 11 to 46 are an integral part of these consolidated financial statements.

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Consolidated Statement of Cash Flows for the year 2014

	Notes	2014	2013
Cash flows from operating activities:			
Profit for the year		66,499	56,418
Adjustments for:			
Depreciation and amortisation	9	75,329	70,699
Other operating items	40	20,979	35,268
Working capital from operations		162,807	162,385
Net change in operating assets and liabilities	41	52,508	68,489
Net cash from operating activities		215,315	230,874
Cash flows to investing activities:			
Acquisition of operating assets	11	(87,893)	(86,916)
Proceeds from the sale of operating assets		1,614	1,594
Acquisition of intangible assets	15	(2,240)	(3,475)
Capitalised deferred cost		(19,160)	(23,849)
Non-current receivables, change		443	(8,622)
Short term investments, change		(22,920)	8,045
Net cash used in investing activities		(130,156)	(113,223)
Cash flows to financing activities:			
Dividend paid	25	(18,994)	(11,760)
Proceeds from non-current borrowings		813	0
Repayment of non-current borrowings		(70,503)	(33,472)
Net cash used in financing activities		(88,684)	(45,232)
(Decrease) increase in cash and cash equivalents		(3,525)	72,419
Effect of exchange rate fluctuations on cash held		(3,251)	2,059
Cash and cash equivalents at beginning of the year		191,538	117,060
Cash and cash equivalents at 31 December	24	184,762	191,538
Investment and financing without cash flow effect:			
Sale of operating assets		0	2,700
Trade and other payables		0	(2,700)
Aquisition of operating assets	11	(10,500)	0
Proceeds from non-current borrowings		10,500	0

Information on interest paid and received are provided in note 42.

The notes on pages 11 to 46 are an integral part of these consolidated financial statements.

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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 of the Company as at and for the year ended 31 December 2014 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 is primarily involved in the airline and tourism industry. The Company is listed on the Nasdaq OMX Iceland.

2. Basis of preparation

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. They were authorised for issue by the Company's board of directors on 5 February 2015.

b. Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments and certain short-term investments are stated at their fair values.

Details of the Group's accounting policies, including changes during the year, are included in Note 44.

3. Functional and presentation currency

These Consolidated Financial Statements are presented in U.S dollars (USD), except for information in note 37 about salaries and benefits of management paid for their service to Group companies. Payments to management are denominated and presented in ISK. The Company's functional currency is 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 2014 is included in the following notes:

Note 16 - measurement of the recoverable amounts of cash-generating units;
Note 18 - deferred cost;
Note 32 - provisions and valuation of financial instruments;
Note 38 - reassessment of taxes.

4. contd.:

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 Chief Risk Officer has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

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 catagorised 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 23 - short term investments;
Note 30 - deferred income;
Note 32 - derivatives;
Note 32 - non-derivative financial liabilities.

5. 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 and is divided into two segments; Route network and Tourism services.

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

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

Route network

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

Tourism services

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

Information on reportable segments

	Route network		Tourism services		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
External revenue	992,159	916,178	121,105	103,777	1,113,264	1,019,955
Inter-segment revenue	131,441	154,661	7,961	5,252	139,402	159,913
Segment revenue	1,123,600	1,070,839	129,066	109,029	1,252,666	1,179,868
Segment EBITDAR*	179,685	176,753	17,990	14,580	197,675	191,333
Operating lease expenses	(28,031)	(36,967)	(11,041)	(9,193)	(39,072)	(46,160)
Segment EBITDA	151,654	139,786	6,949	5,387	158,603	145,173
Finance income	6,277	7,387	835	158	7,112	7,545
Finance costs	(5,556)	(6,741)	(1,076)	(1,125)	(6,632)	(7,866)
Depreciation and amortisation	(72,994)	(67,786)	(2,307)	(1,742)	(75,301)	(69,528)
Share of profit (loss) of equity accounted investees	24	12	(38)	(50)	(14)	(38)
Reportable segment profit before tax	79,405	72,658	4,363	2,628	83,768	75,286
Reportable segment assets	688,272	668,005	30,645	28,411	718,917	696,416
Investment in associates	167	763	457	543	624	1,306
Capital expenditure	113,658	111,611	5,860	2,586	119,518	114,197
Reportable segment liabilities	497,892	479,463	18,783	23,788	516,675	503,251

*EBITDAR means EBITDA before operating lease expenses.

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5. contd.:

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

	2014	2013
Revenue		
Total revenue for reportable segments	1,252,666	1,179,868
Other revenue	33	3,002
Elimination of inter-segment revenue	(139,402)	(159,913)
Consolidated revenue	1,113,297	1,022,957
Profit or loss		
Total profit of reportable segments	83,768	75,286
Unallocated corporate expenses	(3,860)	(4,238)
Consolidated profit before tax	79,908	71,048
Assets		
Total assets for reportable segments	718,917	696,416
Investments in associates	624	1,306
Other assets	129,679	135,153
Consolidated total assets	849,220	832,875
Liabilities		
Total liabilities for reportable segments	516,675	503,251
Elimination of inter-segment liabilities	(32,510)	(16,458)
Consolidated total liabilities	484,165	486,793

Other material items 2014	Reportable segment totals	Adjust- ments	Consoli- dated totals
Segment EBITDAR	197,675	(4,265)	193,410
Segment EBITDA	158,603	(4,265)	154,338
Finance income	7,112	82	7,194
Finance costs	(6,632)	553	(6,079)
Depreciation and amortisation	(75,301)	(28)	(75,329)
Share of loss of associates	(14)	(202)	(216)
Capital expenditure	119,518	275	119,793
Other material items 2013			
Segment EBITDAR	191,333	(1,463)	189,870
Segment EBITDA	145,173	(1,463)	143,710
Finance income	7,545	(768)	6,777
Finance costs	(7,866)	(836)	(8,702)
Depreciation and amortisation	(69,528)	(1,171)	(70,699)
Share of loss of associates	(38)	0	(38)
Capital expenditure	114,197	43	114,240

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6. Discontinued operation

On 30 December 2011 Smartlynx, previously classified as discontinued operations, was sold. Pursuant to the sale Icelandair Group guaranteed aircraft leases on behalf of Smartlynx and had outstanding loans to the Company. Following the sale Icelandair Group made provisions for potential losses due to guarantees and loans. At year-end 2014 all loans had been repaid and all lease guarantees had expired. The provision was therefore reversed resulting in an income of 2.1 million USD net of taxes.

7. Operating income

Transport revenue is specified as follows:	**2014**	**2013**
Passengers	766,624	659,992
Cargo and mail	44,378	42,890
Total transport revenue	811,002	702,882

Other operating revenue is specified as follows:

Sale at airports and hotels	77,295	66,358
Revenue from tourism	87,085	73,543
Aircraft and cargo handling services	33,209	32,592
Maintenance revenue	15,766	14,315
Gain on sale of operating assets	204	1,100
Other operating revenue	13,982	14,198
Total other operating revenue	227,541	202,106

8. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	180,424	153,953
Contributions to pension funds	23,152	20,351
Other salary-related expenses	22,453	21,187
Other personnel expenses	47,132	43,941
Total salaries and other personnel expenses	273,161	239,432
Average number of full year equivalents	3,109	2,848

Other operating expenses are specified as follows:

Operating cost of real estates and fixtures	22,418	21,909
Communication	16,577	13,703
Advertising	23,665	20,704
Booking fee and commission	45,464	37,597
Cost of goods sold	23,750	20,926
Customer services	20,510	15,383
Tourism expenses	50,497	44,326
Other operating expenses	25,621	32,276
Total other operating expenses	228,502	206,824

9. Depreciation and amortisation

The depreciation and amortisation charge in profit or loss is specified as follows:

Depreciation of operating assets, see note 11	71,632	67,956
Amortisation of intangible assets, see note 15	3,697	2,743
Depreciation and amortisation recognised in profit or loss	75,329	70,699

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10. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2014	2013
Interest income on bank deposits	1,319	1,538
Other interest income	900	1,173
Profit from sale of investments	209	0
Net currency exchange gain	4,766	4,066
Finance income total	7,194	6,777
Interest expense on loans and borrowings	5,318	7,860
Other interest expenses	761	842
Finance costs total	6,079	8,702
Net finance income (costs)	1,115	(1,925)

11. Operating assets

Operating assets are specified as follows:

Cost	Aircraft and flight equipment	Buildings	Other property and equipment	Total
Balance at 1 January 2013	375,073	25,510	29,160	429,743
Additions	78,899	1,767	6,250	86,916
Sales and disposals	(48,355)	(198)	(574)	(49,127)
Reclassification to deferred cost	(1,386)	0	0	(1,386)
Reclassification to non-current receivables and deposits	(1,680)	0	0	(1,680)
Effects of movements in exchange rates	279	3,268	3,850	7,397
Balance at 31 December 2013	402,830	30,347	38,686	471,863
Additions	72,030	5,775	20,588	98,393
Sales and disposals	(54,380)	(1,109)	(3,431)	(58,920)
Effects of movements in exchange rates	(204)	(3,294)	(4,903)	(8,401)
Balance at 31 December 2014	420,276	31,719	50,940	502,935
Depreciation and impairment losses				
Balance at 1 January 2013	127,252	6,344	13,150	146,746
Depreciation	62,463	1,455	4,038	67,956
Sales and disposals	(44,648)	(198)	(460)	(45,306)
Effects of movements in exchange rates	123	933	2,214	3,270
Balance at 31 December 2013	145,190	8,534	18,942	172,666
Depreciation	64,674	1,543	5,415	71,632
Sales and disposals	(54,002)	(372)	(3,121)	(57,495)
Effects of movements in exchange rates	(67)	(992)	(2,149)	(3,208)
Balance at 31 December 2014	155,795	8,713	19,087	183,595
Carrying amounts				
At 1 January 2013	247,821	19,166	16,010	282,997
At 31 December 2013	257,640	21,813	19,744	299,197
At 31 December 2014	264,481	23,006	31,853	319,340
Depreciation ratios	6-33%	2-6%	5-33%	

Aquisition of operating assets 2014 includes two Boeing 757 aircraft and engine overhauls amounting to USD 50.1 million.

Consolidated Financial Statements of Icelandair Group hf. 2014 16 Amounts are in USD thousand

12. 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 49.8 million at year end 2014 (2013: USD 107.6 million). The Group owns 29 aircraft, of which 22 are unencumbered, including 14 Boeing 757.

13. 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 amount	
	2014	**2013**	**2014**	**2013**
Boeing - 21 / 19 aircraft	577,000	527,000	218,780	213,512
Other aircraft	41,075	42,608	20,619	22,441
Flight equipment	64,642	71,816	25,082	21,687
Total aircraft and flight equipment	682,717	641,424	264,481	257,640

14. Insurance value of buildings and other operating assets

The principal buildings owned by the Group are the following:

	Official assessment value		Insurance value		Carrying amount	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Maintenance hangar, Keflavík	15,241	15,263	29,517	32,061	4,167	4,960
Freight building, Keflavík	3,439	3,683	7,198	7,267	1,115	2,489
Office building, Reykjavík	5,377	7,875	10,904	11,949	6,651	7,722
Service building, Keflavík	3,834	4,079	7,198	7,830	3,471	1,261
Other buildings in Reykjavik	6,112	6,504	9,475	10,343	1,598	2,001
Other buildings	2,892	3,742	8,183	10,604	6,004	3,380
Buildings total	36,895	41,146	72,475	80,054	23,006	21,813

Official valuation of the Group's leased land for buildings at 31 December 2014 amounted to USD 10.4 million (2013: USD 7.9 million) and is not included in the statement of financial position.

The insurance value of the Group's other operating assets and equipment amounted to USD 75,0 million at year end 2014 (2013: USD 50.9 million). The carrying amount at the same time was USD 31.9 million (2013: USD 19.7 million).

Consolidated Financial Statements of Icelandair Group hf. 2014 17 Amounts are in USD thousand

15. Intangible assets and goodwill

Intangible assets and goodwill are specified as follows:

Cost	Goodwill	Trademarks and slots	Customer relations	Other intangibles	Total
Balance at 1 January 2013	148,514	35,958	5,154	6,213	195,839
Additions	0	0	0	3,475	3,475
Sales and disposals	0	0	0	(416)	(416)
Effect of movements in exchange rates	2,132	27	48	98	2,305
Balance at 31 December 2013	150,646	35,985	5,202	9,370	201,203
Additions	0	0	0	2,240	2,240
Sales and disposals	0	0	0	(1,833)	(1,833)
Effect of movements in exchange rates	(2,130)	(24)	(44)	(182)	(2,380)
Balance at 31 December 2014	148,516	35,961	5,158	9,595	199,230

Amortisation and impairment losses	Goodwill	Trademarks and slots	Customer relations	Other intangibles	Total
Balance at 1 January 2013	11,431	2,605	4,102	986	19,124
Amortisation	0	0	342	2,401	2,743
Sales and disposals	0	0	0	(416)	(416)
Effect of movements in exchange rates	0	0	36	40	76
Balance at 31 December 2013	11,431	2,605	4,480	3,011	21,527
Amortisation	0	0	360	3,337	3,697
Sales and disposals	0	0	0	(1,833)	(1,833)
Effect of movements in exchange rates	0	0	(39)	(95)	(134)
Balance at 31 December 2014	11,431	2,605	4,801	4,420	23,257

Carrying amounts	Goodwill	Trademarks and slots	Customer relations	Other intangibles	Total
At 1 January 2013	137,083	33,353	1,052	5,227	176,715
At 31 December 2013	139,215	33,380	722	6,359	179,676
At 31 December 2014	137,085	33,356	357	5,175	175,973

Consolidated Financial Statements of Icelandair Group hf. 2014 18 Amounts are in USD thousand

16. 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:

	2014	2013
Goodwill	137,085	139,215
Trademarks and airport slots	33,356	33,380
Total	170,441	172,595

The decrease in the carrying amount of goodwill is do to translation differences of subsidiaries with functional currencies other than USD.

For the purpose of impairment testing, goodwill is allocated to the subsidiaries 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	
	2014	2013	2014	2013
Route network	134,933	136,778	33,356	33,380
Tourism services	2,152	2,437	0	0
Total goodwill	137,085	139,215	33,356	33,380

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 - 10 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:

	Route network		Tourism services	
	2014	2013	2014	2013
Long term growth rate	2,5-4,0%	2,5-4,0%	2,5-4%	4.0%
Revenue growth:				
Weighted average 2014 / 2013	5.8%	6.4%	6.4%	19.9%
2015 - 2025 / 2014 - 2024	6.9%	8.1%	8.1%	11.9%
Budgeted EBITDA growth	8.9%	5.4%	5.4%	10.4%
WACC	8,3-13,6%	10,0-14,8%	10,0-14,8%	12.4%
Debt leverage	10,2-56,1%	18,0-56,5%	18,0-56,5%	23.5%
Interest rate for debt	5,5-7,7%	7,7-9,4%	7,7-9,4%	6.7%
Recoverable amounts	551,909	775,398	32,656	39,307

Changes in key assumptions would have the following impact on the carrying amount of goodwill:

	2014	2013
Long term growth rate - 1%	(23,505)	0
WACC +1%	(28,784)	0
EBITDA - 5%	(55,111)	0

No impairment loss is recognised in the Financial Statements.

Consolidated Financial Statements of Icelandair Group hf. 2014 19 Amounts are in USD thousand

17. Investment in associates

The Group has interests in a number of individually immaterial associates. The carrying amount and share of loss of the associates is as follows:

	2014	2013
Carrying amount of interests in associates	2,324	2,035
Share of loss from operation	(216)	(38)

18. Deferred cost

Deferred cost consists of prepaid lease on housing and amounts paid for engine overhauls and heavy maintenance of leased aircraft which will be expensed over the lease period of the aircraft. Deferred cost is specified as follows:

Deferred cost	237	1,025
Current portion, classified as prepayments among receivables	(84)	(767)
Total deferred cost	153	258

Deferred cost will be expensed as follows:

Expensed in 2014	-	767
Expensed in 2015	84	89
Expensed in 2016	47	52
Expensed in 2017	51	56
Expensed in 2018	55	61
Total deferred cost, including current maturities	237	1,025

19. 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:

Loans, effective interest rate 6%	300	466
Deposits	10,268	13,510
Prepayments on aircraft purchases	11,550	9,612
	22,118	23,588
Current maturities	(5,705)	(7,797)
Non-current receivables and deposits total	16,413	15,791

Contractual repayments are specified as follows:

Repayments in 2014	-	7,797
Repayments in 2015	5,705	2,156
Repayments in 2016	511	99
Repayments in 2017	586	934
Repayments in 2018	4,897	9,627
Repayments in 2019	4,441	418
Subsequent	5,978	2,557
Total non-current receivables and deposits, including current maturities	22,118	23,588

Non-current receivables and deposits denominated in currencies other than the functional currency comprise USD 0.9 million (2013: USD 1.3 million).

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20. Taxes

Tax recognised in profit or loss

	2014	2013
Current tax expense		
Current year	12,362	6,613
	12,362	6,613
Deferred tax expense		
Origination and reversal of temporary differences	3,084	8,256
Exchange rate difference	556	(239)
	3,640	8,017
Total tax expense recognised in profit or loss	16,002	14,630
Tax expense from continuing operations	15,483	14,630
Tax expense from discontinued operations	519	0
	16,002	14,630

Tax recognised in other comprehensive income

	2014	2013
Net profit on hedge of net investment in foreign operations	0	(68)
Effective portion of changes in fair value of cash flow hedge	5,940	0
Exchange rate difference	458	0
Total tax recognised in other comprehensive income	6,398	(68)

Reconciliation of effective tax rate

		2014		2013
Profit before tax from continuing operations		79,908		71,048
Income tax according to current tax rate	20.0%	15,982	20.0%	14,210
Tax exempt revenue	0.0%	0	(0.0%)	(27)
Non-deductible expenses	0.2%	190	0.2%	175
Other items	(0.2%)	(170)	0.4%	272
Effective tax rate	20.0%	16,002	20.6%	14,630

Recognised deferred tax liabilities

Deferred tax liabilities are specified as follows:

	2014	2013
Deferred tax liabilities 1 January	27,995	19,671
Exchange rate difference	(1,014)	239
Income tax recognised in profit or loss	16,002	14,630
Income tax recognised in other comprehensive income	(5,940)	68
Income tax payable	(12,362)	(6,613)
Deferred tax liabilities 31 December	24,681	27,995

Consolidated Financial Statements of Icelandair Group hf. 2014 21 Amounts are in USD thousand

20. contd.:

Deferred tax liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
Operating assets	0	0	(29,810)	(26,173)	(29,810)	(26,173)
Intangible assets	0	0	(1,217)	(2,206)	(1,217)	(2,206)
Derivatives	5,991	60	0	0	5,991	60
Trade receivables	199	661	0	0	199	661
	6,190	721	(31,027)	(28,379)	(24,837)	(27,658)
Tax loss carry-forwards	557	0	0	0	557	0
Other items	0	0	(401)	(337)	(401)	(337)
Deferred income tax	6,747	721	(31,428)	(28,716)	(24,681)	(27,995)

Movements in deferred tax balance during the year

2014	1 January	Recognised in profit or loss	Exchange rate difference	Recognised in other comprehensive income and equity	31 December
Operating assets	(26,173)	(4,273)	636		(29,810)
Intangible assets	(2,206)	908	81		(1,217)
Derivatives	60	0	(9)	5,940	5,991
Trade receivables	661	(464)	2		199
Tax loss carry-forwards	0	580	(23)		557
Other items	(337)	(391)	327		(401)
	(27,995)	(3,640)	1,014	5,940	(24,681)
2013					
Operating assets	(22,732)	(3,923)	482	0	(26,173)
Intangible assets	(2,007)	(336)	137	0	(2,206)
Derivatives	90	0	(2)	(28)	60
Trade receivables	601	53	7	0	661
Tax loss carry-forwards	4,967	(4,062)	(905)	0	0
Other items	(590)	251	42	(40)	(337)
	(19,671)	(8,017)	(239)	(68)	(27,995)

The tax calculations above do not take into consideration the effects of reassessment of taxes for the years 2007 to 2011 that took place in December 2013. The management does not agree with the ruling and an appeal to the State Internal Revenue Board has been filed. If the reassessment will however be confirmed the Company's net equity will be reduced by approximately USD 11 million. Further information on the reassessment is provided in note 38.

Consolidated Financial Statements of Icelandair Group hf. 2014 22 Amounts are in USD thousand

21. Inventories

Inventories are specified as follows:

	2014	2013
Spare parts	18,377	17,500
Other inventories	4,529	4,666
Inventories total	22,906	22,166

22. Trade and other receivables

Trade and other receivables are specified as follows:

Trade receivables	60,532	76,537
Prepayments	3,662	3,905
Restricted cash	12,407	8,686
Derivatives used for hedging	2,016	1,853
Current maturities of long term-receivables	5,705	7,797
Other receivables	12,148	15,481
Trade and other receivables total	96,470	114,259

At year end trade receivables are presented net of an allowance for doubtful debts of USD 5.4 million (2013: USD 11.9 million).

Prepaid expenses which relate to subsequent periods amounted to USD 3.7 million (2013: USD 3.9 million) at year end. The prepayments consist mainly of insurance premiums, software licenses and prepaid leases.

Restricted cash is held in bank accounts pledged against credit card, derivative 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 31.

23. Short term investments

Short term investments at year end consist of securities listed on stock exchanges in Luxemburg and Iceland and fixed deposits. They are accounted at fair value at year end, based on market value.

24. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	2014	2013
Securities	1,574	4,956
Bank deposits	182,866	186,192
Cash on hand	322	390
Cash and cash equivalents total	184,762	191,538

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25. Equity

(i) Share capital

The Company's share capital amounts to ISK 5.0 billion according to its Articles of Association. Shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share of one ISK.

The Company held treasury shares in the amount of ISK 25 million at year end 2014 (2013: ISK 25 million).

(ii) 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 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.

(iii) Other 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.

Other reserves are specified as follows:

	Hedging reserve	Translation reserve	Total reserves
Balance 1 January 2013	(1,338)	27,502	26,164
Currency translation differences		4,254	4,254
Currency translation differences reclassified to profit or loss		169	169
Net loss on hedge of investment, net of tax		(111)	(111)
Effective portion of changes in fair value of cash flow hedges, net of tax	1,230		1,230
Balance at 31 December 2013	(108)	31,814	31,706
Currency translation differences		(5,382)	(5,382)
Net profit on hedge of investment, net of tax		(15)	(15)
Net investment hedge reclassified to profit or loss		719	719
Effective portion of changes in far value of cash flow hedges, net of tax	(23,833)		(23,833)
Balance at 31 December 2014	(23,941)	27,136	3,195

(iv) Dividends

The Board of Directors has approved to the following dividend policy: “The Gompany'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.”

Dividend amounting to USD 19.0 million was paid to shareholders in the year 2014 (2013: USD 11.8 million).

The Board of Directors proposes a dividend payment to shareholders in 2015 of ISK 2.500 million, equal to USD 19.6 million, which represents 30% of profit for the year 2014.

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26. Earnings per share

Basic earnings per share is calculated by dividing the 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.

	2014	2013
Basic earnings per share:		
Profit for the year attributable to equity holders of the parent company	66,509	56,386
Weighted average number of shares for the year	4,974,540	4,974,540
Basic earnings per share of ISK 1 expressed in USD cent per share	1.34	1.13
Diluted earnings per share expressed in USD cent per share	1.34	1.13
Earnings per share from continuing operations:		
Profit from continuing operations attributable to equity holders of parent company	64,435	56,386
Basic earnings per share (USD)	1.30	1.13
Diluted earnings per share (USD)	1.30	1.13

27. Loans and borrowings

This note provides information on the contractual terms of the Group´s interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group´s exposure to interest rate, foreign currency and liquidity risk, see note 31.

Loans and borrowings are specified as follows:

	2014	2013
Secured bank loans	49,755	107,621
Unsecured loans	12,179	14,396
Total loans and borrowings	61,934	122,017
Current maturities	(12,263)	(43,528)
Total non-current loans and borrowings	49,671	78,489

Terms and debt repayment schedule:

	Currency	Nominal interest rates year end 2014	Year of maturity	Total remaining balance 2014	2013
Secured bank loans	USD	5.5%	2017-2023	47,974	74,921
Secured bank loans	EUR			0	15,518
Secured bank loans	ISK	7.2%	2023	968	16,209
Secured bank loans, indexed	ISK	6.3%	2021-2028	813	973
Unsecured bond issue, indexed	ISK	5.7%	2023	12,179	14,396
Total interest bearing liabilities				61,934	122,017

Repayments of loans and borrowings are specified as follows:

	2014	2013
Repayments in 2014	-	43,528
Repayments in 2015	12,263	15,898
Repayments in 2016	12,684	16,350
Repayments in 2017	12,755	29,471
Repayments in 2018	8,125	7,430
Repayments in 2019	2,388	1,604
Subsequent repayments	13,719	7,736
Total loans and borrowings	61,934	122,017

On December 19th the Company sold bonds to Icelandic investors for the amount of USD 23,7 million. The bonds were paid in the beginning of January 2015 and are therefore not accounted for in the Balance Sheet at year end. The bonds are denominated in USD and carry 4,25% fixed interest paid semi-annually and have a maturity date in January 2020.

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28. 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 2015. Non-current obligations are specified as follows:

	2014	2013
Non-current payables	39,412	43,907
Current portion, classified in trade and other payables	(31,121)	(20,165)
Total non-current payables	8,291	23,742

Non-current payables will be repaid as follows:

	2014	2013
Repayments in 2014	-	20,165
Repayments in 2015	31,121	19,417
Repayments in 2016	2,212	900
Repayments in 2017	1,123	0
Repayments in 2018	2,481	1,750
Repayments in 2019	800	0
Subsequent repayments	1,675	1,675
Total non-current payables, including current maturities	39,412	43,907

29. Trade and other payables

Trade and other payables are specified as follows:

	2014	2013
Trade payables	40,983	38,125
Current portion of engine overhaul and security deposits from lease contracts	31,121	20,165
Derivatives used for hedging	31,925	2,050
Income tax payable	12,362	6,613
Other payables	97,924	92,551
Total trade and other payables	214,315	159,504

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

30. 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.

Deferred income is specified as follows:

	2014	2013
Sold unused tickets	148,346	129,373
Frequent flyer points	13,400	12,610
Other prepayments	13,198	11,552
Total deferred income	174,944	153,535

The amount allocated to frequent flyers 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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31. 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 above risks, 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 Board has established the Risk Management Commitee, which 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	**2014**	**2013**
Non-current receivables and deposits	19	16,413	15,791
Trade and other receivables	22	92,808	110,354
Short term investments	23	30,879	7,955
Cash and cash equivalents	24	184,762	191,538
		324,862	325,638

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31. contd.:

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 liquid assets and agreements with financial institutions related to financial operations, e.g. 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 and satisfactory credit ratings.

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.

Guarantees
The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. However at year end 2014 the Group is still guaranteeing from divested companies (see note 38), the PDP payments of one 787 Boeing Dreamliner order but the economical proceeds from these orders have been sold to the creditors in relation to the Group's financial restructuring in the year 2010.

Impairment losses
The aging of trade receivables at the reporting date was as follows:

	Gross 2014	Allowance for Impairment 2014	Gross 2013	Allowance for Impairment 2013
Not past due	54,876	(315)	52,815	(569)
Past due 0-30 days	2,830	(117)	5,861	(523)
Past due 31-120 days	3,081	(457)	6,578	(462)
Past due 121-365 days	615	(409)	19,422	(7,602)
More than one year	4,520	(4,092)	3,770	(2,753)
Total	65,922	(5,390)	88,446	(11,909)

Movements in the allowance for impairment in respect of trade receivables during the year were as follows:

	2014	2013
Balance at 1 January	11,909	8,668
Impairment loss allowance, (decrease) increase	(1,766)	3,701
Amounts written off	(4,684)	(508)
Exchange rate difference	(69)	48
Balance at 31 December	5,390	11,909

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; a significant part of the balance relates to customers that have a good track record with the Group.

The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

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31. 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.

The Group policy is to divide liquid assets into three classes depending on duration and match them against the Group's liquidity preferences laid out by the management on annual basis. Classes one and two include the estimated minimum of accessible funds for operational liquidity, but differ in terms of asset types and duration. Class three includes assets of longer duration for strategic liquidity, such as medium term investments. The amounts in each class of assets are targeted once a year with reference to a number of economic indicators, most importantly, the estimated level of three month operational costs, but also w.r.t. the estimated annual level of fixed costs and turnover.

Following are the contractual maturities of financial liabilities, including estimated interest payments:

31 December 2014	Carrying amount	Contractual cash flows	Within 12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities						
Unsecured bank loans	12,179	15,906	1,767	1,767	5,302	7,070
Secured loans	49,755	61,675	14,576	14,928	23,423	8,748
Payables & prepayments	222,606	222,606	214,145	2,381	4,405	1,675
Exposure to liquidity risk	284,540	300,187	230,488	19,076	33,130	17,493
31 December 2013						
Financial liabilities						
Unsecured bond issue	14,396	19,282	1,928	1,928	5,785	9,641
Secured loans	107,621	124,844	47,683	19,689	56,082	1,390
Payables & prepayments	183,246	183,246	159,504	19,417	2,650	1,675
Exposure to liquidity risk	305,263	327,372	209,115	41,034	64,517	12,706

Unused loan commitments at year end 2014 amounted to USD 3.9 million (2013: USD 4.3 million).

In addition to the liquidity exposure presented in the balance sheet the Group is exposed to off balance sheet liabilities. Further information on these liabilities are provided in note 33 and 36.

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 income 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 derivatives 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.

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31. contd.:

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities.

The Group seeks to reduce its foreign exchange exposure arising from currency mismatch in the cashflow by netting receipts and payments in each individual currency and by internal trading within the Group. The residual net currency exposures of the Group which need to be met by external sources are short positions in ISK and USD which are financed by a surplus of European currencies, most importantly EUR and Scandinavian currencies but also GBP and CAD. The exposure is hedged 40-80% 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:

2014	**ISK**	**EUR**	**GBP**	**DKK**	**SEK**	**CAD**
Net balance sheet exposure	(19,996)	1,310	(11,963)	(296)	(960)	7,438
Next 12 months forecast sales	326,050	263,390	75,216	40,281	37,009	65,015
Next 12 months forecast purch. ...	(443,990)	(161,437)	(45,781)	(17,727)	(3,806)	(15,705)
Net forecast transaction contracts	(137,936)	103,263	17,472	22,258	32,243	56,748
Forward exchange contracts	42,416	(46,800)	(4,622)			(12,584)
Net currency exposure	(95,519)	56,463	12,850	22,258	32,243	44,164

2013	**ISK**	**EUR**	**GBP**	**DKK**	**SEK**	**NOK**
Net balance sheet exposure	(25,872)	(18,759)	(7,072)	919	2,715	1,911
Next 12 months forecast sales	339,060	237,680	73,705	39,890	47,195	43,760
Next 12 months forecast purch. ...	(409,650)	(167,882)	(40,722)	(14,670)	(4,141)	(4,799)
Net forecast transaction contracts	(96,462)	51,039	25,911	26,139	45,769	40,872
Forward exchange contracts	0	(64,711)	0	0	0	0
Net currency exposure	(96,462)	(13,672)	25,911	26,139	45,769	40,872

The following significant exchange rates of USD applied during the year:

	Average rate		**Year-end spot rate**	
	2014	**2013**	**2014**	**2013**
ISK	0.0085	0.0082	0.0079	0.0087
EUR	1.33	1.33	1.22	1.38
GBP	1.65	1.56	1.56	1.65
CAD	0.91	0.97	0.86	0.94
DKK	0.18	0.18	0.16	0.18
SEK	0.15	0.15	0.13	0.16
NOK	0.16	0.17	0.13	0.16

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31. contd.:

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. This analysis is performed on the same basis as for 2013.

2014	Equity	Profit or loss
ISK	7,642	7,642
EUR	(4,517)	(4,517)
GBP	(1,028)	(1,028)
DKK	(1,781)	(1,781)
SEK	2,579	2,579
CAD	3,533	3,533
2013		
ISK	7,717	7,717
EUR	1,094	864
GBP	(2,073)	(2,073)
DKK	(2,091)	(2,091)
SEK	(3,662)	(3,662)
NOK	(3,270)	(3,270)

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 loan and fixed for floating swap contracts, which carrying amount is evaluated at fair value.

At the reporting date the interest rate profile of the Group´s interest bearing financial instruments was as follows:

	Carrying amount	
	2014	**2013**
Fixed rate instruments		
Financial assets	2,864	3,000
Financial liabilities	0	0
	2,864	3,000
Effect of derivatives	(32,595)	84
	(29,731)	3,084
Variable rate instruments		
Financial assets	182,866	186,192
Financial liabilities	(36,264)	(79,811)
	146,602	106,381

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31. contd.:

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. The Group does designate derivatives for the purpose of fuel, carbon, fx and interest rate hedging as hedging instruments under a fair value hedge accounting model. 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 2014	**100 bp increase**	**100 bp decrease**
Fixed rate instruments	(26)	26
Effects of derivatives	425	(164)
Fair value sensitivity (net)	399	(138)
31 December 2013		
Fixed rate instruments	205	(112)
Fair value sensitivity (net)	205	(112)

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 2014	**100 bp increase**	**100 bp decrease**
Variable rate instruments	1,466	(1,466)
Cash flow sensitivity (net)	1,466	(1,466)
31 December 2013		
Variable rate instruments	1,064	(1,064)
Cash flow sensitivity (net)	1,064	(1,064)

Other market price risk

Fuel price risk

The Group maintains a policy of hedging fuel price exposure by a ratio from 40% and up to 60%, from a minimum of 9 months forward to a maximum of 12 months.

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		**Effect on profit before tax**	
	2014	**2013**	**2014**	**2013**
Increase in fuel prices by 10%	10,980	6,800	0	0
Decrease in fuel prices by 10%	(10,980)	(6,800)	0	0

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 reserve the equivilant of three months operating cost of which 30% of the benchmark can be in the form of unused lines of credit. Furthermore according to the policy the equity ratio shall be no less than 35%.

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32. Financial instruments and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount 2014	Fair value 2014	Carrying amount 2013	Fair value 2013
Derivatives, included in loans and receivables	2,016	2,016	1,853	1,853
Short term investments	30,879	30,879	7,955	7,955
Unsecured bond issue	(12,179)	(12,479)	(14,396)	(17,398)
Secured loans	(49,755)	(52,092)	(107,621)	(117,219)
Derivatives, included in payables and prepayments	(31,925)	(31,925)	(2,050)	(2,050)
Total	(60,964)	(63,601)	(114,259)	(126,859)

Fair value hierarchy:

The table below analyses the fair value of assets and liabilities and their levels in the fair value hierarchy:

31 December 2014	Level 1	Level 2	Level 3	Total
Derivatives, included in loans and receivables		2,016		2,016
Short term investments	30,879			30,879
Unsecured bond issue			(12,479)	(12,479)
Secured loans			(52,092)	(52,092)
Derivatives, included in payables and prepayments		(31,925)		(31,925)
Total	30,879	(29,909)	(64,571)	(63,601)

31 December 2013	Level 1	Level 2	Level 3	Total
Derivatives, included in loans and receivables		1,853		1,853
Short term investments	7,955			7,955
Unsecured bond issue			(17,398)	(17,398)
Secured loans			(117,219)	(117,219)
Derivatives, included in payables and prepayments		(2,050)		(2,050)
Total	7,955	(197)	(134,617)	(126,859)

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 using a risk-free interest rate based on government bonds.

The fair value of interest rate swaps is based on broker quotes. If not available the fair value is based on the discounted cashflow difference of the contratual 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 entity and counterparty when appropriate.

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33. Off-balance sheet items

Leases as lessee

As a lessee the Group has in place operating leases for 9 aircraft at the end of December 2014. The leases are for 4 Boeing 757 aircraft, 2 Boeing 767 aircraft and 3 Boeing 737 aircraft. The lease agreements last from 9 months to 6,5 years. The Group also has in place operating leases for storage facilities, hotels, equipment and fixtures for its operations, the longest until the year 2039. During the year USD 39.1 million was recognised as an expense in profit or loss in respect of operating leases (2013: USD 46.2 million). At year end 2014 the leases are payable as follows in nominal amounts for each year:

	Real estate	Aircraft	Other	Total 2014	Total 2013
In the year 2014	-	-	-	-	40,908
In the year 2015	12,773	22,293	4,569	39,635	36,858
In the year 2016	15,673	16,443	945	33,061	31,275
In the year 2017	14,893	13,113	808	28,814	27,736
In the year 2018	14,752	11,211		25,963	25,000
In the year 2019	14,653	5,010		19,663	18,825
Subsequent	170,568	5,565		176,133	151,780
Total	243,312	73,635	6,322	323,269	332,382

The aircraft lease payments consist of ordinary lease payments not maintenance reserves.

34. Leases as lessor

As a lessor the Company leases aircraft on wet, dry and other various leases, both on short and long term leases. Lease income for the year 2014 amounted to USD 74.8 million (2013; USD 118.0 million). Contracted leases at year end were as follows:

	2014	2013
In the year 2014	-	62,458
In the year 2015	63,987	66,429
In the year 2016	55,190	59,946
In the year 2017	51,619	43,190
In the year 2018	51,511	42,983
In the year 2019	19,777	16,935
Subsequent	18,711	18,711
Total	260,795	310,652

35. Guarantees

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

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

36. Capital commitments

In February 2013 Icelandair Group and Boeing finalized an agreement for the purchase of sixteen 737 MAX8 and 737 MAX9 aircraft with an option to purchase additional eight aircraft. The delivery of the first aircraft is scheduled in the first half of 2018. The commitment for all sixteen aircraft was valued at USD 1.6 billion at Boeing list prices when the agreement was finalised. The list price of these aircraft is currently USD 1.755 billion. The Company received acceptable discounts which due to confidentiality agreements cannot be disclosed. Prepayments according to the agreement will be made over the construction period. The Company’s plan is to finance the acquisition with internal resources, capital markets and aviation finance products.

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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 paid for their service to Group companies and the number of shares in the Company held by management are specified below. Salaries and benefits are presented in ISK, rounded to nearest thousand.

Board of Directors:	2014 Salaries and benefits ISK	Number of shares held at year-end 2014 in thousands	2013 Salaries and benefits ISK	Number of shares held at year-end 2013 in thousands
Sigurður Helgason, Chairman of the Board	8,100	14,000	7,981	14,000
Ásthildur Margrét Otharsdóttir	4,500		4,440	
Katrín Olga Jóhannesdóttir	6,000	413	5,940	413
Magnús Magnússon	2,875 *		1,625 *	
Úlfar Steindórsson	6,150		6,060	
Elín Jónsdóttir, former board member	1,702			
Herdís Dröfn Fjeldsted, former board member	1,325 **		4,290 **	
Key employees:				
Björgólfur Jóhannsson CEO of Icelandair Group hf.	45,833	1,300	44,377	1,300
Bogi Nils Bogason, CFO of Icelandair Group hf.	39,795	1,000	36,738	1,000
Birkir Hólm Guðnason, CEO of Icelandair ehf.	39,415		36,903	
Seven MD's of Group companies	192,556	7,111	170,948	7,111

Included in the above mentioned list of shares held by management and directors are shares held by companies controlled by them.

*One board member had waived his rights to salaries, instead the board agreed to contribute equal amounts to Icelandair's Special Children's Travel Fund. From August the board member started receiving salary.

**The salary of one board member was paid to Framtakssjódur Íslands slhf.

Transaction with associates

During the year 2014 the Group purchased services from associates for USD 0.1 million (2013: USD 0.1 million). The Group's revenues were USD 0.1 million from associates (2013: USD 0.1 million). The Group has not granted repayment of loans for its associates. Transactions with associates are priced on an arm's length basis.

Transaction with shareholders

There are no shareholders with significant influence at year end 2014. Companies which members of the Board and key employees control have been identified as being eleven. 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. Total purchases in 2014 from these entities amounted to USD 0.1 million (2013: USD 0.1 million). Total sales amounted to USD 0.1 million (2013: USD 0.1 million).

38. Reassessment of taxes

In December 2013 the Directorate of Internal Revenue ruled that interest expenses on loans that had been transferred to the Company as a result of a reverse acquisition in 2006 did not qualify as tax deductible expenses and reassessed taxes for the years 2007 to 2011. The Company's management does not agree with the reasoning for the ruling and an appeal to the State Internal Revenue Board has been filed. The management is of the opinion that the ruling by the tax authorities will be overruled and the effect of reassessment is therefore not included in the financial statements. If the ruling will however be confirmed the Company's net equity will be reduced by approximately USD 11 million.

39. Group entities

The Company held eleven subsidiaries at year end 2014 which are all included in the consolidated financial statements. They are as follows:

	Ownership interest 2014	2013
Route network:		
Air Iceland ehf.	100%	100%
Fjárvakur - Icelandair Shared Services ehf.	100%	100%
Feria ehf.	100%	100%
Icelandair ehf.	100%	100%
Icelandair Cargo ehf.	100%	100%
IGS ehf.	100%	100%
Loftleiðir - Icelandic ehf.	100%	100%
Tourism services:		
Iceland Travel ehf.	100%	100%
Icelandair Hotels ehf.	100%	100%
Other operation:		
A320 ehf.	100%	100%
IceCap Ltd., Guernsey	100%	100%

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

At year end, shares in the subsidiaries in Route Network and Tourism services are pledged as mortgage against the Group's borrowings.

40. Statement of cash flows

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

	2014	2013
Expensed deferred cost	20,613	24,852
Exchange rate difference and indexation of liabilities and assets	3,823	3,461
Gain on the sale of operating assets	(204)	(1,100)
Gain on sale of investments	(211)	0
Share of loss of associates	216	38
Income tax	(3,258)	8,017
Total other operating items in the statement of cash flows	20,979	35,268

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

	2014	2013
Inventories, increase	(738)	(4,791)
Trade and other receivables, decrease	6,633	22,934
Trade and other payables, increase	25,196	18,910
Deferred income, increase	21,417	31,436
Net change in operating assets and liabilities in the statement of cash flows	52,508	68,489

42. Additional cash flow information:

Interest paid	6,421	8,081
Interest received	2,213	3,531
Taxes paid	6,708	0

43. Ratios

The Group's primary ratios at year end are specified as follows:

Current ratio	0.83	0.94
Equity ratio	0.43	0.42
Intrinsic value of share capital	8.99	8.52

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44. 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 number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2014. Of those only IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities effect the Group´s financial statements. The Group has adopted these standards but their impact on the Group´s financial statements are immaterial.

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.

(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 (see (iii) below), or qualifying cash flow hedges to the extent the hedge is effective, which are recognised in other comprehensive income.

(ii) Subsidiaries with other functional currency

Assets and liabilities of foreign operations and subsidiaries with functional currency in 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.

44. contd.:

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.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

(iii) **Hedge of net investment in foreign operations**

The Group applies hedge accounting to foreign currency differences arising between the functional currency of the subsidiary and the Company's functional currency (USD), regardless of whether the net investment is held directly or through an intermediate parent.

Currency differences arising on the translation of a financial liability designated as a hedge of a net investment in a subsidiary are recognised in other comprehensive income to the extent that the hedge is effective, and are presented in the translation reserve within equity. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the gain or loss on disposal.

c. Financial instruments

(i) **Non-derivative financial assets**

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets, including assets designated at fair value through profit or loss, are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle 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 loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein which takes into account any dividend income, are recognised in profit or loss.

Financial assets classified as held-for-trading comprise marketable securities actively managed by the Group's treasury department to address short-term liquidity needs.

44. contd.:

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise restricted cash and cash equivalents and trade and other receivables.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits and marketable securities with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(ii) **Non-derivative financial liabilities**
The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities including liabilities designated at fair value through profit or loss are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings and trade and other payables.

(iii) **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.

(iv) **Derivative financial instruments, including hedge accounting**
The Group holds derivative financial instruments to hedge its foreign currency, fuel price and interest rate risk exposures (see note 32). 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 accounted for as described below. The Group holds no trading derivatives.

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.

44. contd.:

Cash flow hedges
When a derivative is designated as the 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 presented 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 forecast transaction is no longer expected to occur, then the balance in equity is reclassified in profit or loss.

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.

d. 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 costs**
Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

(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.

44. contd.:

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.

e. 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.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

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 accumulated 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
Customer relations	7-10 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.

44. contd.:

f. Leased assets

All leases are operating leases and the leased assets are not recognised in the Group's statement of financial position.

g. 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.

h. 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 has occurred after the initial recognition of the asset, and that loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

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 the 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 its 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 the other assets in the unit (group of units) on a pro rata basis.

44. contd.:

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.

j. 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 lease

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.

i. 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.

k. Operating income

(i) **Transport revenue**

Passenger ticket sales are not recognised as revenue until 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 the 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 estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and revenue is recognised only when the points are redeemed and the Group has fulfilled its obligations to supply 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.

44. contd.:

(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.

l. Employee benefits

(i) **Short-term employee benefits**

Short-term employee benefits are expensed as 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 as the related service is provided.

m. Lease payments

Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

n. 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 the discount 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.

44. contd.:

o. Income tax

Income tax expense 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 the taxable income for the period, using tax rates enacted at the reporting date.

Current tax comprises the expected tax payable on the taxable income for the year. It is measured 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.

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.

p. 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 own shares held, for the effects of all dilutive potential ordinary shares.

q. 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.

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.

Corporate Governance Statement

The framework
The guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ OMX 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 OMX Iceland, make up the framework for Icelandair Group's Corporate Governance practices. The Company's Articles of Association are on the Company's website and the guidelines and the rules for Issuers are on the website of NASDAQ OMX Iceland.

The Company complies in all main respect to the rules mentioned above. The Company however does not have a Nomination Committee as the Board of Directors has not seen the need for it. No government organization has found the Company to be in breach with any rule or regulation regarding corporate governance.

In 2012 The Iceland Chamber of Commerce, the Confederation for Icelandic Employers and Nasdaq OMX Iceland hf. granted the Company a recognition for "Exemplary in corporate governance". The aim with the recognition is to increase credibility and transparency of Icelandic companies' corporate governance with respect to shareholders and interested parties.

Internal audit and risk management
The Group's 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'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 eight meetings in 2014.

Audit Commitee:
Katrín Olga Jóhannesdóttir, Chairman
Ásthildur Margrét Otharsdóttir
Magnús Magnússon

Values and code of ethics and corporate responsibility
The company's values are:
WE CARE for our customers, employees, environment and shareholders.
WE THINK CLIENTS through consistency, reliability, clear product alternatives and friendly service.
WE DRIVE RESULTS via teamwork, shared information and values, accountability and profitability.

On 25 May 2009 the Board of Directors approved a Code of Ethics that was amended on 5 January 2011. 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
Sigurður Helgason, Chairman
Úlfar Steindórsson

The Board of Directors and Executive Committee

Board of Directors

Sigurður Helgason, Chairman

Sigurður Helgason was born in 1946. He was President & CEO of Flugleidir/FL-Group/Icelandair 1985 - 2005. He was Director of Cash Management 1974-1980, Senior Vice-President of Finance 1980-1983 and General Manager of The Americas 1983-1985 for Flugleidir/Icelandair. He was Chairman of the Board of The Icelandic International Development Fund 2005-2008. He is the Chairman of the Icelandair Special Children Travel Fund since 2005. He was a member of the IATA board of Govenors 2004/2005. He graduated with a MBA degree from The University of North Carolina, Chapel Hill, USA in 1973 and a Cand. Oecon. degree from the University of Iceland in 1971. He joined the Board on 6 August 2009.

Úlfar Steindórsson, Deputy Chairman

Úlfar Steindórsson was born in 1956 and is CEO of Toyota in Iceland ehf. and Jú ehf. He was CEO of Primex ehf in Siglufjordur from 2002-2004, and CEO of the New Business Venture Fund from 1999-2002. Úlfar is chairman of the board of Eignarhaldsfélagið Bifreiðar ehf., Bergey ehf., Bifreiðainnflutningur ehf., Bílaútleigan ehf., Okkar bílaleiga ehf., and TK bílar ehf. He is a Board member of Toyota á Íslandi ehf, Króksslóð ehf, TMH Iceland ehf, AB 257 ehf, Blue Lagoon international ehf., Eldvörp ehf., Hótel Bláa lónið ehf., Bláa Lónið Heilsuvörur ehf., UK fjárfestingar ehf, Johan Rönning hf, S.Guðjónsson ehf., Skorri ehf., and UK fjárfestingar ehf. Úlfar holds a Cand. Oecon degree from the University of Iceland and an MBA from Virginia Commonwealth University. He joined the Board on 15 September 2010.

Ásthildur Margrét Otharsdóttir

Ásthildur was born in 1968 and is an independent management consultant with prior business experience as Global Director of Treasury and Corporate Development at Össur hf., Senior Account Manager at Kaupthing Bank hf. and Management Consultant at Accenture in Copenhagen. She is Chairman of the Board of Directors of Marel hf. and JÖR ehf. Ásthildur is a member of the Board of Directors of Marorka ehf.,and the Research Center for Business Ethics at the University of Iceland and the Court of Arbitration of the Icelandic Chamber of Commerce. Ásthildur has an MBA degree from the Rotterdam School of Management, Erasmus University and a Cand. Oecon degree from the University of Iceland. She joined the Board on 23 March 2012.

Katrín Olga Jóhannesdóttir

Katrín Olga Jóhannesdóttir was born in 1962 and is the former Chief Strategy Officer of Skipti hf. and the current Chairman of Já upplýsingaveitur hf. Before that she was VP for sales and marketing and VP for residential markets at Síminn hf. Prior to that she held a position as the Managing Director of Navision Iceland and was a management consultant at VSO. Katrín Olga currently serves on the Boards of Directors of Ölgerðin hf., Reykjavik University, the Iceland Chamber of Commerce Advania and Njála ehf., having previously served on the Boards of the Central Bank of Iceland., Sirius IT and SkjáMiðlar. She holds a Cand. Oecon degree from the University of Iceland and an M.Sc. in Business Economics from Odense University. She joined the Board on 6 August 2009.

Magnús Magnússon

Magnús has been employed as a division manager at LBI hf. since early 2009, having previously worked for Búnadarbankinn and the financing company Lýsing following a period of self-employment from 2003 to year-end 2008. Magnús currently serves on the Boards of Directors of Lýsi hf. and the manufacturing and contracting company Loftorka in Borgarnes, as well as several subsidiaries of LBI hf. Magnús holds a degree in business economics from the University of Iceland and a Masters Degree in international business from Norges Handelshøyskole. Magnús has been a reserve member of Icelandair Group‘s Board of Directors since 2009 and a member of the Board since fall 2014.

Executive committee

Björgólfur Jóhannsson, president and CEO

Björgólfur was born in 1955 and joined Icelandair Group on 15 January 2008. Before joining Icelandair Group, Björgólfur was the CEO of Icelandic Group hf. from March 2006. From 1992-1996 Björgólfur was the CFO of UA in Akureyri. He became the CEO of Síldarvinnslan hf. in 1999 and served as the Director of Innovation and Development at Samherji hf. from 1996, having worked as a chartered accountant for two auditing firms from 1980. Björgólfur served as the Chairman of the Board of the Federation of Icelandic Fishing Vessel Owners from 2003-2008. Björgólfur is the Chairman of the Conferderation of Icelandic Employers and a Board member of the Iceland Chamber of Commerce. He graduated with a degree in Business Administration from the University of Iceland in 1983 and became a chartered accountant in 1985.

Bogi Nils Bogason, CFO
Birkir Hólm Guðnason, CEO of Icelandair
Magnea Þórey Hjálmarsdóttir, Managing Director of Icelandair Hotels

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.

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 five 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 of Directors that was emended on 10 August 2012. The Rules on Working Procedures are accessible to the Board of Directors and the management through the Board's intranet, Coredata. 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 two sub-committees; the Compensation Committee and the Audit Committee. The sub-committees adhere to the Rules on Working Procedures. The Board of Directors convened eighteen times in the year and all Board Members attended almost all meetings. All the Members of the Board of Directors are independent from the Company, except Ásthildur Margrét Otharsdóttir. All Board members were independent of the Company's major shareholders in 2014.

Quarterly statements (unaudited)

Unaudited summary of the Group's operating results by quarters:

	Q1	Q2	Q3	Q4	Total
Year 2014					
Operating income	191,277	297,793	418,746	205,481	1,113,297
Operating expenses without depreciation	(204,581)	(252,553)	(294,863)	(206,962)	(958,959)
Operating (loss) profit bef. depr. (EBITDA)	(13,304)	45,240	123,883	(1,481)	154,338
Depreciation	(17,296)	(19,390)	(21,368)	(17,275)	(75,329)
Operating (loss) profit (EBIT)	(30,600)	25,850	102,515	(18,756)	79,009
Net finance income (expense)	(2,687)	(1,076)	3,646	1,232	1,115
Share of (loss) profit of associates	(75)	2	28	(171)	(216)
(Loss) profit before income tax	(33,362)	24,776	106,189	(17,695)	79,908
Income tax	6,641	(4,976)	(20,388)	3,240	(15,483)
(Loss) profit from continuing operations	(26,721)	19,800	85,801	(14,455)	64,425
Profit from discontinued operation	0	2,593	0	(519)	2,074
(Loss) profit	(26,721)	22,393	85,801	(14,974)	66,499
Other comprehensive (loss) profit	(1,548)	2,331	(5,737)	(23,578)	(28,532)
Total comprehensive (loss) income	(28,269)	24,724	80,064	(38,552)	37,967
Working capital (used in) from operations	(12,549)	50,270	135,211	(10,125)	162,807
Net cash from operating activities	121,371	83,625	5,767	4,552	215,315
Net cash used in investing activities	(33,946)	(14,009)	(38,383)	(43,818)	(130,156)
Net cash used in financing activities	(29,138)	(52,916)	(3,622)	(3,008)	(88,684)

	Q1	Q2	Q3	Q4	Total
Year 2013					
Operating income	173,045	265,600	371,662	212,650	1,022,957
Operating expenses without depreciation	(181,359)	(222,664)	(269,421)	(205,803)	(879,247)
Operating (loss) profit bef. depr. (EBITDA)	(8,314)	42,936	102,241	6,847	143,710
Depreciation	(14,684)	(18,167)	(20,073)	(17,775)	(70,699)
Operating (loss) profit (EBIT)	(22,998)	24,769	82,168	(10,928)	73,011
Net finance income (expense)	29	(1,409)	(306)	(239)	(1,925)
Share of profit (loss) of associates	46	(55)	(11)	(18)	(38)
(Loss) profit before income tax	(22,923)	23,305	81,851	(11,185)	71,048
Income tax	4,634	(4,815)	(16,526)	2,077	(14,630)
(Loss) profit	(18,289)	18,490	65,325	(9,108)	56,418
Other comprehensive income (loss)	1,549	(777)	1,756	2,964	5,492
Total comprehensive (loss) income	(16,740)	17,713	67,081	(6,144)	61,910
Working capital (used in) from operations	(1,481)	48,154	111,138	4,574	162,385
Net cash from (used in) operating activities	78,453	106,436	30,272	15,713	230,874
Net cash used in investing activities	(40,795)	(15,477)	(24,288)	(32,663)	(113,223)
Net cash used in financing activities	(11,239)	(15,690)	(10,361)	(7,942)	(45,232)

Consolidated Financial Statements of Icelandair Group hf. 2014 51 Amounts are in USD thousand