

Icelandair Group hf.
Condensed Consolidated
Interim Financial Statements
1 January - 31 March 2017

USD

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Endorsement and Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 31 March 2017 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements (IAS 34). The interim financial statements comprise the consolidated interim financial statements of Icelandair Group hf. (the "Company") and its subsidiaries together referred to as the "Group". The condensed consolidated Interim financial statements are stated in thousands of USD.

According to the consolidated statement of comprehensive income, loss for the period from 1 January to 31 March 2017 amounted to USD 34.9 million. Total comprehensive loss for the period was USD 48.1 million. According to the consolidated statement of financial position, equity at the end of the period amounted to USD 505.1 million, including share capital in the amount of USD 40.0 million. Reference is made to the consolidated statement of changes in equity regarding information on changes in equity.

Statement by the Board of Directors and the CEO

The condensed consolidated interim financial statements for the three months ended 31 March 2017 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. The condensed consolidated interim financial statements have not been audited or reviewed by the Company's independent auditors.

According to our best knowledge it is our opinion that the condensed consolidated interim financial statements give a true and fair view of the financial performance of the Group for the three month period ended 31 March 2017, its assets, liabilities and consolidated financial position as at 31 March 2017 and its consolidated cash flows for the period then ended.

Further, in our opinion, the condensed consolidated interim financial statements and the endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Group's operations and its position and describes the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the condensed consolidated interim financial statements of Icelandair Group hf. for the period from 1 January to 31 March 2017 and confirm them by means of their signatures.

Reykjavík, 27 April 2017.

Board of Directors:

Úlfar Steindórsson, Chairman of the Board

Ásthildur M. Otharsdóttir

Georg Lúðvíksson

Katrín Olga Jóhannesdóttir

Ómar Benediktsson

CEO:

Björgólfur Jóhannsson

Consolidated Statement of Comprehensive Income for the period from 1 January to March 31 2017

	Notes	2017 1.1.-31.3.	2016 1.1.-31.3.
Operating income			
Transport revenue	5	149.056	141.858
Aircraft and aircrew lease		20.627	26.337
Other operating revenue	5	52.689	43.642
		222.372	211.837
Operating expenses			
Salaries and other personnel expenses		86.261	70.832
Aviation expenses		81.546	80.136
Other operating expenses		70.806	59.115
	6	238.613	210.083
Operating (loss) profit before depreciation and amortisation (EBITDA)		(16.241)	1.754
Depreciation and amortisation		(25.887)	(21.768)
Operating loss before net finance costs (EBIT)		(42.128)	(20.014)
Finance income		1.466	720
Finance costs		(3.410)	(2.045)
Net finance costs	7	(1.944)	(1.325)
Share of profit of associates, net of tax		470	55
Loss before tax		(43.602)	(21.284)
Income tax		8.707	4.288
Loss for the period		(34.895)	(16.996)
Other comprehensive (loss) income:			
Foreign currency translation differences of foreign operations		754	3.780
Effective portion of changes in fair value of cash flow hedge, net of tax		(13.955)	5.395
Other comprehensive (loss) profit for the period		(13.201)	9.175
Total comprehensive loss for the period		(48.096)	(7.821)
Loss attributable to:			
Owners of the Company		(34.960)	(16.982)
Non-controlling interest		65	(14)
Loss for the period		(34.895)	(16.996)
Total Comprehensive loss attributable to:			
Owners of the Company		(48.920)	(7.822)
Non-controlling interest		824	1
Total comprehensive loss for the period		(48.096)	(7.821)
Loss per share:			
Basic loss per share in US cent per share		(0,71)	(0,34)
Diluted loss per share in US cent per share		(0,71)	(0,34)

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

Consolidated Statement of Financial Position as at 31 March 2017

	Notes	31.3.2017	31.12.2016
Assets			
Operating assets	8	620.707	602.615
Intangible assets and goodwill		177.032	174.704
Investments in associates		24.448	23.497
Deferred cost		43	63
Receivables and deposits		49.770	74.098
Non-current assets		872.000	874.977
Inventories		25.110	23.963
Trade and other receivables		190.816	139.280
Assets held for sale		4.952	4.148
Short term investments		22.678	23.236
Cash and cash equivalents		300.172	226.889
Current assets		543.728	417.516
Total assets		1.415.728	1.292.493
Equity			
Share capital		39.912	40.576
Share premium		145.350	154.705
Reserves	9	77.726	114.849
Retained earnings		240.855	257.696
Equity attributable to equity holders of the Company		503.843	567.826
Non-controlling interest		1.211	387
Total equity		505.054	568.213
Liabilities			
Loans and borrowings	10	233.744	196.722
Payables		13.553	13.289
Deferred tax liabilities		46.160	58.179
Non-current liabilities		293.457	268.190
Loans and borrowings	10	46.787	45.660
Trade and other payables		221.380	210.543
Deferred income		349.050	199.887
Current liabilities		617.217	456.090
Total liabilities		910.674	724.280
Total equity and liabilities		1.415.728	1.292.493

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

Consolidated Statement of Changes in Equity for the period from 1 January to 31 March 2017

	Attributable to equity holders of the Company						Non-con- trolling interest	Total equity
	Share capital	Share premium	Reserves	Retained earnings	Total	Total		
1 January to 31 March 2016								
Equity 1.1.2016	40.576	154.705	1.400	259.746	456.427	104	456.531	
Total comprehensive loss			9.160	(16.982)	(7.822)	1	(7.821)	
Effects of profit or loss and dividend from subsidiaries			544	(544)				
Dividend (0.38 US cent per share) .				(26.968)	(26.968)		(26.968)	
Equity 31 March 2016	40.576	154.705	11.104	215.252	421.637	105	421.742	
 1 January to 31 March 2017								
Equity 1.1.2017	40.576	154.705	114.849	257.696	567.826	387	568.213	
Purchase of treasury shares	(664)	(9.355)			(10.019)		(10.019)	
Total comprehensive loss			(13.960)	(34.960)	(48.920)	824	(48.096)	
Effects of profit or loss and dividend from subsidiaries			(23.163)	23.163				
Dividend (0.10 US cent per share) .				(5.044)	(5.044)		(5.044)	
Equity 31 March 2017	39.912	145.350	77.726	240.855	503.843	1.211	505.054	

Information on changes in reserves are provided in note 9.

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

Consolidated Statement of Cash Flows for the three months ended 31 March 2017

	Notes	2017 1.1.-31.3	2016 1.1.-31.3
Cash flows from operating activities			
Loss for the period		(34.895)	(16.996)
Adjustments for:			
Depreciation and amortisation		25.887	21.768
Other operating items	18	(6.547)	(1.749)
Working capital (to) from operations		(15.555)	3.023
Net change in operating assets and liabilities	19	141.052	145.769
Net cash from operating activities		<u>125.497</u>	<u>148.792</u>
Cash flows used in investing activities:			
Acquisition of operating assets		(44.760)	(55.986)
Proceeds from the sale of operating assets		160	16
Acquisition of intangible assets		(1.680)	(362)
Capitalised deferred cost		(840)	(370)
Non-current receivables, change		(29.236)	(2.917)
Marketable securities, change		574	(40.166)
Net cash used in investing activities		<u>(75.782)</u>	<u>(99.785)</u>
Cash flows from (used in) financing activities:			
Purchase of treasury shares		(10.019)	0
Dividend paid		(5.044)	0
Proceeds from non-current borrowing		40.000	0
Repayment of non-current borrowings		(3.695)	(3.311)
Proceeds from short term borrowings		2.278	0
Net cash from (used in) financing activities		<u>23.520</u>	<u>(3.311)</u>
Increase in cash and cash equivalents		73.235	45.696
Effect of exchange rate fluctuations on cash held		48	1.534
Cash and cash equivalents at beginning of the period		226.889	194.586
Cash and cash equivalents at 31 March		<u>300.172</u>	<u>241.816</u>
Investment and financing without cash flow effect:			
Dividend issued		0	(26.968)
Trade and other payables		0	26.968

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

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

Notes

1. Reporting entity

Icelandair Group hf. (the "Company") is a public limited liability company incorporated and domiciled in Iceland. The condensed consolidated interim financial statements of the Company as at and for the three months ended 31 March 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates. The Group primarily operates in the airline transportation and tourism industry. The Company is listed on the Nasdaq OMX Iceland.

The Group's consolidated financial statements as at and for the year ended 31 December 2016 are available upon request from the Company's registered office at Reykjavíkurlugvöllur in Reykjavík, Iceland or at its website address, www.icelandairgroup.is and at The Icelandic Stock Exchange website, www.nasdaqomx.com.

2. Basis of accounting

These interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2016.

These interim financial statements were approved for issue by the Board of Directors on 27 April 2017.

3. Use of judgements and estimates

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2016.

a. Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. The management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Group Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Notes, contd.:

4. Operating segments

Segment information is presented in the consolidated financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure and is divided into three segments; Route network, Tourism services and Shared services.

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

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

Route network

The primary business strategy of the Route Network is to operate flights based on the Hub and Spoke concept between Europe and North America via Iceland, leveraging Iceland's geographical position. Icelandair's Hub and Spoke System is able to maximize flights to and from North America arriving in Iceland with easy connections to Scandinavia, the UK and Continental Europe. This successful strategy of combining passengers visiting and departing Iceland, with passengers travelling across the Atlantic (via Iceland) has allowed Icelandair to constantly grow and expand its route network over the last years.

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

Tourism services

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

Shared services

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

Geographic information

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

	2017	2016
	1.1.-31.3.	1.1.-31.3.
<i>Revenues</i>		
North America	34%	27%
Iceland	27%	32%
West Continental Europe	10%	11%
Scandinavia	6%	6%
United Kingdom	10%	9%
Other	13%	15%
Total revenues	<u>100%</u>	<u>100%</u>

Notes, contd.:

4. contd.:

Reportable segments for the three months ended 31 March 2017

	Route network	Tourism services	Shared services	Total
External revenue	187.590	31.885	2.897	222.372
Inter-segment revenue	23.310	1.190	18.465	42.965
Segment revenue	<u>210.900</u>	<u>33.075</u>	<u>21.362</u>	<u>265.337</u>
Segment EBITDAR*	(6.553)	(1.043)	(294)	(7.890)
Operating lease expenses	(5.679)	(2.585)	(87)	(8.351)
Segment EBITDA	<u>(12.232)</u>	<u>(3.628)</u>	<u>(381)</u>	<u>(16.241)</u>
Finance income	1.353	88	4.892	6.333
Finance costs	(2.607)	(313)	(5.357)	(8.277)
Depreciation and amortisation	(23.105)	(1.193)	(1.589)	(25.887)
Share of profit of equity accounted investees	0	118	352	470
Reportable segment loss before tax	<u>(36.591)</u>	<u>(4.928)</u>	<u>(2.083)</u>	<u>(43.602)</u>
Reportable segment assets	1.225.240	50.729	983.593	2.259.562

Reportable segments for the three months ended 31 March 2016

External revenue	187.609	21.933	2.295	211.837
Inter-segment revenue	28.686	1.382	12.003	42.071
Segment revenue	<u>216.295</u>	<u>23.315</u>	<u>14.298</u>	<u>253.908</u>
Segment EBITDAR*	12.182	(773)	(1.249)	10.160
Operating lease expenses	(5.736)	(2.567)	(103)	(8.406)
Segment EBITDA	<u>6.446</u>	<u>(3.340)</u>	<u>(1.352)</u>	<u>1.754</u>
Finance income	593	15	2.967	3.575
Finance costs	(2.948)	(591)	(1.361)	(4.900)
Depreciation and amortisation	(20.534)	(761)	(473)	(21.768)
Share of profit of equity accounted investees	0	72	(17)	55
Reportable segment loss before tax	<u>(16.443)</u>	<u>(4.605)</u>	<u>(236)</u>	<u>(21.284)</u>
Reportable segment assets	949.847	44.156	635.469	1.629.472

*EBITDAR means EBITDA before operating lease expenses.

Notes, contd.:

4. contd.:

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

	2017 1.1.-31.3.	2016 1.1.-31.3.
Revenue		
Total revenue for reportable segments	265.337	253.908
Elimination of inter-segment revenue	(42.965)	(42.071)
Consolidated revenue	<u>222.372</u>	<u>211.837</u>

Profit or loss

Consolidated loss before tax	(43.602)	(21.284)
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Other material items	Reportable segment totals	Adjust- ments	Consoli- dated totals
1.1.-31.3. 2017			
Segment EBITDAR	(7.890)	(7.890)	(7.890)
Segment EBITDA	(16.241)	(16.241)	(16.241)
Finance income	6.333	(4.867)	1.466
Finance costs	(8.277)	4.867	(3.410)
Depreciation and amortisation	(25.887)	(25.887)	(25.887)
Share of profit of associates	470	470	470
Capital expenditure	47.280	47.280	47.280
1.1.-31.3. 2016			
Segment EBITDAR	10.160	10.160	10.160
Segment EBITDA	1.754	1.754	1.754
Finance income	3.575	(2.855)	720
Finance costs	(4.900)	2.855	(2.045)
Depreciation and amortisation	(21.768)	(21.768)	(21.768)
Share of loss of associates	55	55	55
Capital expenditure	56.718	56.718	56.718

Notes, contd.:

5. Operating income

Transport revenue is specified as follows:

	2017	2016
	1.1.-31.3.	1.1.-31.3.
Passengers	136.496	130.829
Cargo and mail	12.560	11.029
Total transport revenue	<u>149.056</u>	<u>141.858</u>

Other operating revenue is specified as follows:

Sale in airplanes and hotels	21.570	14.767
Revenue from tourism	19.803	16.303
Aircraft and cargo handling services	3.998	7.280
Maintenance revenue	652	371
Gain on sale of operating assets	70	0
Other operating revenue	6.596	4.921
Total other operating revenue	<u>52.689</u>	<u>43.642</u>

6. Operating expenses

Salaries and other personnel expenses are specified as follows:

Salaries	56.548	44.656
Salary-related expenses	15.823	13.752
Other personnel expenses	13.890	12.424
Total salaries and personnel expenses	<u>86.261</u>	<u>70.832</u>

Aviation expenses are specified as follows:

Aircraft fuel	37.857	34.124
Aircraft lease	5.575	5.418
Aircraft handling, landing and communication	20.286	19.643
Aircraft maintenance expenses	17.828	20.951
Total aviation expenses	<u>81.546</u>	<u>80.136</u>

Other operating expenses are specified as follows:

Operating cost of real estate and fixtures	6.509	5.685
Communication	5.979	4.889
Advertising	8.490	7.520
Booking fees and commission expenses	16.098	15.364
Cost of goods sold	5.871	4.848
Customer services	6.186	5.340
Tourism expenses	12.717	8.312
Allowance for bad debt	176	375
Other operating expenses	8.780	6.782
Total other operating expenses	<u>70.806</u>	<u>59.115</u>

Notes, contd.:

7. Finance income and finance costs

Finance income and finance costs are specified as follows:

	2017	2016
	1.1.-31.3.	1.1.-31.3.
Interest income on bank deposits	153	388
Other interest income	459	332
Net foreign exchange gain	854	0
Finance income total	<u>1.466</u>	<u>720</u>
Interest expenses on loans and borrowings	3.183	922
Other interest expenses	227	206
Net foreign exchange loss	0	917
Finance costs total	<u>3.410</u>	<u>2.045</u>
Net finance costs	(1.944)	(1.325)

8. Operating assets

Aquisition of operating assets in the first three months of 2017 amounted to USD 44.8 million. Included is interior equipment of aircraft, overhaul of own engines and aircraft spare parts in the amount of USD 23.2 million.

9. Equity

Reserves are specified as follows:

	Hedging reserve	Translation reserve	Other reserves	Total reserves
Reserves 1.1.2016	(24.059)	25.459	0	1.400
Changes during the period	5.395	3.765	544	9.704
Reserves 31.3.2016	<u>(18.664)</u>	<u>29.224</u>	<u>544</u>	<u>11.104</u>
Reserves 1.1.2017	16.423	34.524	63.902	114.849
Changes during the period	(13.955)	(5)	(23.163)	(37.123)
Reserves 31.3.2017	<u>2.468</u>	<u>34.519</u>	<u>40.739</u>	<u>77.726</u>

10. Loans and borrowings

This note provides information on the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

	31.3.2017	31.12.2016
Non-current loans and borrowings are specified as follows:		
Secured bank loans	58.155	58.195
Unsecured loans	222.376	184.187
	<u>280.531</u>	<u>242.382</u>
Current maturities	(46.787)	(45.660)
Total non-current loans and borrowings	<u>233.744</u>	<u>196.722</u>

Terms and debt repayment schedule:

		Nominal interest rates	Year of maturity	Total remaining balance	
	Currency			31.3.2017	31.12.2016
Secured bank loans	USD	4,5%	2017-2022	18.799	21.082
Secured bank loans, indexed	ISK	4,3%	2023	1.731	1.728
Unsecured bond issue	USD	4,7%	2021	212.098	172.527
Unsecured bond issue, indexed	ISK	5,7%	2023	10.278	11.660
Short term secured bank loans	USD	5,4%	2018	1.684	0
Short term secured bank loans	ISK	6,6%	2017	35.941	35.385
Total interest-bearing liabilities				<u>280.531</u>	<u>242.382</u>

Notes, contd.:

11. Contractual repayments of loans and borrowings

Repayments of loans and borrowings are specified as follows:

	2017	2016
Repayments in 2017 (9 months)(2016: 12 months)	42.500	45.660
Repayments in 2018	7.169	5.585
Repayments in 2019	2.286	2.390
Repayments in 2020	26.070	26.175
Repayments in 2021	192.578	152.661
Subsequent repayments	9.928	9.911
Total loans and borrowings	280.531	242.382

12. Financial instruments and fair values

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

	31.3.2017		31.12.2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Derivatives, included in loans and receivables	4.725	4.725	20.560	20.560
Short term investments	22.678	22.678	23.236	23.236
Unsecured bond issue	(222.376)	(245.402)	(184.187)	(189.963)
Secured loans	(58.155)	(59.713)	(58.195)	(58.138)
Derivatives, included in payables and prepayments	(1.619)	(1.619)	(436)	(436)
Total	(254.747)	(279.331)	(199.022)	(204.741)

13. Off-balance sheet items

As a lessee the Group has in place operating leases for storage facilities, hotels, equipment and fixtures for its operations, the longest until the year 2041. The Group has also in place operating leases for aircraft which last from 1,5 months to 5,25 years. At the end of March 2017 the leases are payable as follows in nominal amounts for each year:

	Real estate	Aircraft	Other	Total 31.3.2017
In Q2 - Q4 2017	19.525	12.897	6.939	39.361
In the year 2018	20.962	15.225	3.343	39.530
In the year 2019	19.922	9.024	3.336	32.282
In the year 2020	19.693	7.624	2.438	29.755
In the year 2021	18.945	2.994	2.438	24.377
Subsequent	231.067	1.830	33.704	266.601
Total	330.114	49.594	52.198	431.906

14. Guarantees

IG Invest, a former subsidiary of the Company, had an agreement with Boeing for the purchase of one Boeing 787 Dreamliner aircraft to be delivered in 2017. Despite the disposal of IG Invest, Icelandair Group was a guarantor for the capital commitments. In 2016 the Company reached an agreement with Boeing where the aircraft is scheduled to be sold to a third party and the Company is relieved of its commitments.

Notes, contd.:

15. Capital commitments

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

The delivery plan is as follows:

	2018	2019	2020	2021
Boeing 737 Max 8	3	3	2	1
Boeing 737 Max 9		3	3	1
Total	<u>3</u>	<u>6</u>	<u>5</u>	<u>2</u>

17. Group entities

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

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

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

18. Statement of cash flows

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

	2017	2016
	1.1.-31.3.	1.1.-31.3.
Expensed deferred cost	1.941	2.285
Exchange rate differences	759	292
(Gain) loss on sale of operating assets	(70)	17
Share in profit of associates	(470)	(55)
Income tax	(8.707)	(4.288)
Other operating items total	<u>(6.547)</u>	<u>(1.749)</u>

Notes, contd.:

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

Inventories, increase	(1.146)	(233)
Trade and other receivables, increase	(2.274)	(61.218)
Trade and other payables, (decrease) increase	(4.910)	49.166
Deferred income, increase	149.382	158.054
Net change in operating assets and liabilities	<u>141.052</u>	<u>145.769</u>

20. Additional cash flow information:

Interest expenses paid	4.243	1.773
Interest income received	215	314

21. Ratios

The Group's primary ratios are specified as follows:

	31.3.2017	31.12.2016
Current ratio	0,88	0,92
Equity ratio	0,36	0,44
Intrinsic value of share capital	12,65	14,00

22. Significant accounting policies

The accounting policies and methods of computation applied in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2016.

These consolidated interim financial statements are presented in U.S. dollars (USD), which is the Company's functional currency. All financial information presented in USD has been rounded to the nearest thousand, except when otherwise indicated.