Isavia ohf.

Consolidated
Financial Statements

2018

Isavia ohf.
Reykjavik Airport
101 Reykjavík
id.no. 550210-0370

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Statement by the Board of Directors and Managing Director

Isavia ohf. is a government owned private limited company and complies with the Icelandic Limited Companies Act, No. 2/1995. The Company’s shareholder is the Treasury of Iceland and the Company's domicile and venue is Reykjavik Airport. Isavia ohf. is the national operator of airports in Iceland and controls the air navigation services in the Icelandic Air Navigation Territory. The Company is a service provider in airport service and air navigation service and lays the foundation for air traffic in Iceland.

The Consolidated Financial Statements for the year 2018 is prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

According to the Consolidated Statement of Comprehensive Income, the operating revenues for the year 2018 amounted to ISK 41.788,4 million and had increased ISK 3.814,1 million from previous year. Net income for the year 2018 amounted to ISK 4.261,7 million which is a increase about ISK 313,1 million from previous year. Negative foreign exchange rate losses are because of the weakening of the Icelandic krona and amounts about ISK 1.604,4 million for the year 2018 and amounted ISK 810,5 million for the previous year. According to the Consolidated Statement of Financial Position, total assets has increased ISK 7.285,4 million during the year 2018 and amounted to ISK 79.833,7 million at year end. The Company´s total equity at year end 2018 is ISK 35.267,4 million and had increased ISK 4.262 million since year end 2017. The Company’s equity ratio is 44,18% at the end of the year 2018 compared to 42,74% at the end of the year 2017. The number of full-time staff equivalents throughout the year 2018 was 1.430 and had increased about 80 from previous year.

The Board of Directors propose that the profit for the year 2018 will be carried on to next year but refers to the financial statements regarding other changes in the Company's equity.

The Board of Directors have established detailed procedure where the main tasks and authority of the Board and Mangaging Director are defined. These procedures provide that the Board of Directors shall follow the Guidelines on Corporate Governance, issued by the Iceland Chamber of Commerce in collaboration with the Confederation of Icelandic Employers and Nasdaq OMX Iceland. The Company´s Corporate governance statement was refreshed in April 2018.

The Board of Directors have established a policy regarding social responsibility and joined the UN Global Compact (UNGC). Collaterally the Company has put efforts to coordinate the Company´s policies and procedures to the ten main rules of UNGC. The Company's Annual report reflects now for the first time these emphasis in enviromental, social and employee matters. Isavia ohf. will report yearly to the United Nations where the Company's goals and performance of the ten categories in question will be specified. Further information regarding non-financial matters are to be found in that annual report.

The Board of Directors and Managing Director of Isavia ohf. confirm hereby according to their best knowledge that these Consolidated Financial Statements give a true and fair view of the Company´s net income, assets, liabilites and cash flow in the year 2018. However it should be noted that there is uncertainty about the treatment of submitted VAT to Directorate of internal revenues. The discussion about the uncertainty can be found in note 14 with the consolidated financial statements, but the company has reasonably kept its consideration against the Directorate of internal revenues. Until the final ruling is made in this matter there will be uncertainty regarding VAT period from September 2016 to December 2018 and if the ruling becomes unfavorable to the company it will affext the company's operations. This uncertainty was removed with amending of the Value Added Tax Act which came into force on January 1st 2019. It is also the opinion of the Board of Directors and Managing Director that accounting policies used are appropriate and these Consolidated Financial Statements present all the information necessary to give an overview of developement and results in Company´s operating performance, as well as describing the principal risk and uncertainty factors faced by the Company.

The Board of Directors and the Managing Director today hereby confirm the Company´s Consolidated Financial Statements for the year 2018 with their signature.

Reykjavík, March 7th 2019

Board of Directors

Ingimundur Sigurpálsson
Chairman of the Board

Eva Pandora Baldursdóttir

Nanna Margrét Gunnlaugsdóttir

Matthías Páll Imsland

Valdimar Halldórsson

Managing director

Björn Óli Hauksson

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Isavia ohf.

Opinion

We have under a mandate of the Icelandic National Audit Office, audited the accompanying Consolidated Financial Statements of Isavia ohf. for the year ended December 31st 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying Consolidated Financial Statements give a true and fair view of the financial position of Isavia ohf. as at December 31st 2018, and its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and additional requirements in the Icelandic Financial Statement Act.

Emphasis of matter

Without qualifying our opinion we draw attention to Note 14 to the financial statements which describes the uncertainty of the recovery of a claim due to value added tax from the Directorate of Internal Revenue.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards, are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Isavia ohf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Icelandic Institute of State Authorized Public Accountants, Code of Ethics (FLE Code) and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors and the Managing Director are responsible for the other information. Other information comprises the Statement by the Board of Directors and Managing Director and Statements of Corporate Governance which we obtained prior to the date of this auditor's report and the Annual Report which is expected to be made available to us after that date but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation regarding report of the board of directors as stated below.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Consolidated Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the Managing Director determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and the Managing Director are responsible for assessing Isavia ohf.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and the Managing Director either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings including any significant deficiencies in internal control that we identify during our audit, if applicable.

Reykjavík, March 7th 2019

Anna Birgitta Geirfinnsdóttir
State Authorized Public Accountant

Kristján Þór Ragnarsson
State Authorized Public Accountant

Consolidated Statements of Comprehensive Income 2018

	Notes	Consolidation 2018	2017
Operating revenues	4	41.788.354	37.974.293
Cost of goods sold		(6.540.646)	(5.842.486)
Salaries and related expenses	5	(18.287.666)	(16.741.851)
Administrative expenses		(543.804)	(627.211)
Other operating expenses		(5.118.217)	(4.909.509)
Depreciation and amortization	9, 10	(3.460.925)	(3.330.096)
Operating profit		7.837.095	6.523.140
Financial income	7	237.611	226.080
Financial expenses	7	(1.172.899)	(1.022.348)
Net exchange rate differences	7	(1.604.456)	(810.548)
Profit before taxes		5.297.352	4.916.324
Income tax	8	(1.035.653)	(967.738)
Total comprehensive income for the year		4.261.698	3.948.586

Consolidate Financial Statements of Isavia ohf. 2018 5 All amounts are in thousands of ISK

Consolidated Statements of Financial Position

Assets	Notes	Consolidation 31.12.2018	31.12.2017
Non-current assets			
Property, plant and equipment	9	57.195.995	54.331.542
Intangible assets	10	4.965.176	5.173.155
Bonds and other long term assets	12	152.967	188.262
		62.314.137	59.692.959
Current assets			
Inventories	13	674.761	546.721
Accounts receivables	14	5.616.752	4.653.881
Current maturities of long term assets	12	37.514	36.964
Other receivables	14	5.754.389	4.516.482
Bank balances and cash	14	5.436.127	3.101.287
		17.519.544	12.855.335
Total assets		79.833.681	72.548.293
Equity and liabilities			
Equity	15		
Share capital		5.589.063	5.589.063
Statutory reserves		2.483.798	2.483.798
Revaluation reserves		43.684	45.007
Retained earnings		27.150.903	22.887.611
Total equity		35.267.448	31.005.480
Non-current liabilities			
Loans from credit institutions	16	33.626.775	25.515.178
Deferred tax liabilities	17	2.138.638	2.056.586
		35.765.413	27.571.764
Current liabilities			
Accounts payable	18	1.858.581	2.276.999
Current maturities of non-current liabilities	16	3.133.778	8.223.715
Current tax liabilities	8	953.694	898.152
Other current liabilities	18	2.854.767	2.572.183
		8.800.819	13.971.050
Liabilities		44.566.233	41.542.814
Total equity and liabilities		79.833.681	72.548.293

Consolidate Financial Statements of Isavia ohf. 2018 6 All amounts are in thousands of ISK

Consolidated Statement of Changes in Equity

	Share Capital	Statutory reserves	Revaluation reserves	Retained earnings	Total Equity
Opening balance at 1 January 2017	5.589.063	2.483.798	46.331	18.937.671	27.056.863
Transfer to retained earnings	0	0	(1.324)	1.324	0
Translation exchange differences	0	0	0	30	30
Comprehensive income	0	0	0	3.948.586	3.948.586
Balance at 31 December 2017	5.589.063	2.483.798	45.007	22.887.611	31.005.480
Opening balance at 1 January 2018	5.589.063	2.483.798	45.007	22.887.611	31.005.480
Transfer to retained earnings	0	0	(1.324)	1.324	0
Translation exchange differences	0	0	0	270	270
Comprehensive income	0	0	0	4.261.698	4.261.698
Balance at 31 December 2018	5.589.063	2.483.798	43.684	27.150.903	35.267.448

No dividends were paid to shareholders for the year. Share capital has been fully paid.

Consolidate Financial Statements of Isavia ohf. 2018 7 All amounts are in thousands of ISK

Consolidated Statement of Cash Flows

	Notes	Consolidation 2018	2017
Cash flows from operating activities			
Operating profit		7.837.095	6.523.140
Depreciation and amortization	9, 10	3.460.925	3.330.096
Accounting provision of current assets	13,14	119.197	76.305
(Gain) Loss on disposal of assets		(12.982)	(14.394)
Operating cash flow before transfer to working capital		11.404.235	9.915.147
Changes in inventories	13	(128.579)	(29.803)
Changes in operating assets		(2.304.507)	(4.904.808)
Changes in operating liabilities		(162.219)	(34.979)
Cash generated from operations		8.808.930	4.945.556
Interest earned		371.525	290.528
Finance costs		(1.132.554)	(994.055)
Income taxes paid		(898.152)	(1.075.721)
Net cash generated from operating activities		7.149.749	3.166.308
Investing activities			
Acquisition of property, plant and equipment	9	(6.045.203)	(14.424.814)
Sales of property, plant and equipment		57.704	23.411
Acquisition of intangible assets	10	(116.918)	(176.643)
Installments on bonds	12	40.488	36.298
		(6.063.928)	(14.541.748)
Financing activities			
Repayments of borrowings	16	(8.514.747)	(1.234.444)
New bank loans raised	16	9.824.100	9.984.250
		1.309.353	8.749.806
Net change in cash and cash equivalents		2.395.173	(2.625.634)
Cash and cash equivalents at the beginning of the year		3.101.287	5.830.506
Effect of foreign exchange rates		(60.333)	(103.585)
Cash and cash equivalents at the end of the year		5.436.127	3.101.287

Consolidate Financial Statements Isavia ohf. 2018 8 All amounts are in thousands of ISK

Notes

1. General information

Isavia ohf. (the Company) was established in the beginning of 2010 with a merger between Flugstodir ohf. and Keflavíkurflugvöllur ohf. Isavia ohf. is a government owned private limited company and complies with the Icelandic limited companies law No. 2/1995. The company‘s domicile and venue is Reykjavik Airport.

Isavia ohf. is the national operator of airports and air navigation services in Iceland. The Company ensures flight safety and airport security in accordance with recognized international standards and operating licenses issued and supervised by the Icelandic Transport Authority.

The Consolidated Financial Statements of Isavia ohf. consist of the Parent Company and its subsidiaries. Companies within the consolidation are in addition to Isavia ohf., Duty Free Store ehf., Tern Systems ehf., Domavia ehf. and Suluk ApS in Greenland.

2. Summary of Significant Accounting Policies

Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the European Union by the end of the year 2018, new and revised.

Application of new and revised International Financail Reporting Standards (IFRS)

Two new accounting standards, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers became effective on 1 Januar 2018, see the effect of implementation below. The Company has not applied new and revised IFRSs that have been issued but are not yet effective. IFRS 16 Leases becomes effective from 1 January 2019. The effects of implentations of IFRS 16 on the Company's financial statements have been estimated by management and deemed immaterial. The effect of other standards and amendments in issue but not effective are considered none or immaterial for the Company's financial statements.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 and describes the accounting for financial instruments. IFRS 9 introduces new requirements for the classification and measurement of financial assets and liabilities, impairments of financial assets and general hedge accounting. The implementation of the standard has an immaterial impact on the impairment measurement of financial assets, but otherwise does not affect the financial statements.

IFRS 15 Revenue from contracts with customers

IFRS 15 replaces IAS 18, IAS 11 and related interpretations. The standard introduces new requirements for revenue recognition and additional disclosures. IFRS 15 introduces a five step approach to revenue recognition, which requires that revenue is recognised when control of the sold product or service has been transferred to the customer, instead of focusing only on risk and reward as the previous guidance.

The implementation of the standard has an immaterial impact on the Company's revenue recognition and no adjustments were made to 2018 opening balances. The standard requires more detailed disclosures regarding revenue recognition. For further information on the Company's accounting policies for revenue recognition can be found later in this note.

Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis except that certain assets are evaluated by the revaluation methods. Accounting policies which concern certain properties and financial instruments that are measured at fair value is explained in note below. The Financial Statements are presented in ISK, which is the Company's functional currency.

The principal accounting policies are set out below.

Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities and use its power to affect the time of investment.

The Consolidated Financial Statements have been prepared using the purchase method. The result of subsidiaries acquired during the year are included in the Consolidated Income Statement from the effective date of acquisition as appropriate. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with those used by other members of the Company.

One of the purposes of Consolidated Financial Statements is to show only the net external sales, expenses, assets and liabilities of the consolidated entities as a whole. Hence, intercompany transactions have been eliminated within the consolidated businesses in the presentation of the consolidated financial statements.

Notes

2. Summary of Significant Accounting Policies (continued)

Risk management

The Company's general policy in risk management is to manage interest rate and foreign currency risk. The Company has no currency swap contracts, options or derivatives outstanding at year-end. Special risk committee operates under mandate from Board of Directors and determines scope and nature on risk and profitability analysis for construction and projects which can have significant influence on income and financial position.

Revenue recognition

Revenue recognition

The revenue recognition of the company reflects the consideration that the company expects to receive due to the sale of goods and services to the customer. The company records revenues when the control of the sold goods or services is transferred to the customer. In general, the company's invoices are made monthly as provided service for the relevant month, with the exception of the sale of the Duty Free Store that is recorded when the sale takes place.

Air navigation

The air navigation division handles air navigation services for domestic and international flights across large areas of the North Atlantic. The revenue of the division are coming, i.a. of air navigation services to flight operators in North Atlantic on the basis of a Joint Finance agreement (international agreement), air navigation services on airspace and air navigation services at airports in Iceland.

Domestic airports

The domestic airports system handles the operation and maintenance of all airports in Iceland besides Keflavik airport. The largest part of revenue from domestic airports comes from a service agreement with the Ministry of Transport and Local Government, but other revenues consist of user charge and leasing of buildings. All buildings at airports in Iceland besides Keflavik airport are owned by the Icelandic state.

Keflavik airport

Keflavik airport is divided into airport techonology and property division, operations divison and commercial operations. Airport technology and property division is responsible for practical projects, environmental issues, maintenance and operation of real estate and baggage handling at Keflavik airport. The operations division handles aviation security and airport services at Keflavik airport. The commercial operations division handles passenger service, the operation of the retail area and catering area and handles all contracting with operators af Keflavik airport, as well as the operation of parking services and the development of new routes. Keflavik airport's revenues include, among other things, revenues from user charges, revenues from retail area and catering area at the airport, other rent, market revenues and revenues from parking services.

Duty Free Store

Revenue from Duty Free Store are mainly revenues from sales of goods but other revenue of the company are for example advertisting revenue.

Other subsidiaries

Revenue from other subsidiaries of the company are mainly revenues from sales of service and goods and from contracts and also other various revenues.

Lease income

Revenues from operating lease contracts are entered linear over the contract time. Costs that are related to the contract are added to the book value of the leased asset and the cost will be charged linear over the contract time. The company has no financing lease contracts as lessor.

2. Summary of Significant Accounting Policies (continued)

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed upon.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probable to be recoverable. Contract costs are recognised as expenses in the period in which they incur.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately recognised as an

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Assets held under finance leases are recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. All other leases are classified as operating leases and lease payments are charged in the period to which they belong.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

Borrowing costs

Interest income are charged over period according to the principal and interest rate.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment revenues from short term investments that relates financing for capitalized assets, are transfered to reduce capitalized borrowing costs.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Income tax

Income tax is calculated and recognised in the Financial Statements. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's current tax rate is 20%.

The tax currently payable is income tax that is likely to be paid within the next 12 months for taxable income of the year and corrections in income tax for previous years.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. The difference is due to different assumptions in calculation of income tax.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

2. Summary of Significant Accounting Policies (continued)

Property, plant and equipment

Property, plant and equipment are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured in a reliable manner. Property, plant and equipment which qualifies for recognition as an asset is initially measured at cost. The cost of a property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

With the merger of Flugfjarskipti ehf. and Isavia ohf. the properties of the former company were revaluated because the market value of their properties were considered higher than the book value. The revaluation is based on an estimated sales price, which has been confirmed by appropriated assessor. The changes in the value is credited to other equity as revaluation reserve and the tax effect in deferred tax liability.

The depreciable amount of an asset is allocated on a straight-line basis over its useful life, less residual value.

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset on sales day.

Intangible assets

Intangible assets are recognised only if it is probable that the asset will generate future economic benefits and the cost of the asset can be measured reliably. Intangible assets includes softwares. Intangible asset which qualifies for recognition as an asset is initially measured at cost. The depreciable amount of the asset is allocated on a fixed annual percentage of the historical cost over its useful life, less residual value. Estimated useful life and depreciaton methods are evaluated in end of each accounting period.

Expenditure on research activities is recognised as an expense in the period in wich it is incurred. Developement cost is recognised only if all of the following conditions are met:
- The technical feasibility of completing the intangible asset so that it will be avilable for use and sale
- The intension to complete the intangible asset and use or sell
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future enocomic benefits
- The avilabilty of adequate technical, financial and other resources to complete the development and to use or sell the asset
- The ability to mesure reliably the expenditure attributable to intangible assets during its development.

Where no intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, intangible assets are reported at cost less accumulated amortization and accumulated impairment losses.

Intangible assets resulting from the merger of the companies are only accounted for if they are distinctive from goodwill. At the initial registration they are recognized at cost, but with later assesments they are stated at cost less accumulated depreciations and impairment losses.

Impairment

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less cost to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. Impairment of goodwill is not permitted to reverse.

Notes

2. Summary of Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost or net realisable value, after taking obsolete and defective goods into consideration. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation.

Financial assets

Financial assets are recognized at fair value on initial recognition in accounting. When financial assets are not measured at fair value through profit or loss, all direct vost are increased to their value in the initial recognition of the accounts. IFRS 9 divides financial assets within the scope of IAS 39 into two categories - financial assets at amortized cost and financial assets at fair value. The company registers all its financial assets at amortized cost.

Financial assets at amortized cost

Financial assets that is due for maturity and contractual payments on set dates consists only of installments of princial and interest, shall be recorded at amortized cost unless the instrument is defined at fair value through profit or loss in accordance with fair value. Such assets are initially recognized at fair value plus any related cost. After initial recognition, such financial assets are measured at amortized cost based on effective interest, net of impairment. The Company's financial assets valued at amortized cost are bonds, accounts receivable, other short-term receivables and cash.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Investments held to maturity

Financial assets are classified as financial assets intended to be held to maturity when the Company has investments, i.e. bills or bonds with the intent and the ability to hold to maturity. When applicable, investments held to maturity are recognised at amortized cost, using effective interest method less any impairment losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Notes

2. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The Company's financial assets that are subject to IFRS 9 impairment requirements are bonds, trade and other receivables (excluding withheld capital gains tax, VAT receivable and pre-payments) and cash and cash equivalents.

The Company always recognises lifetime expected credit losses for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company's estimate for trade receivable ECL is described in detail in note 13.

At each reporting date the Company assesses if there is objective evidence of financial assets being credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. The Company records special allowance for credit-impaired assets.

Changes in valuation allowance are recognised in profit or loss in the period they occur. Impairment can be reversed subsequently if there has been a change in the estimates used for the impairment.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities and equity instruments

Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at FVTPL' or ‘other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Notes

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Accounting judgements are preferably in estimated useful life of assets and in write-downs of receivables and inventories, as described at note no. 9, 10, 13 and 14.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

4. Revenues

The consolidated composition of revenues, is specified as follows	2018	2017
Revenue from sales	13.216.029	12.033.544
Revenue from services	23.428.408	21.626.387
Revenue from contracts	0	109.165
Revenue from long term assets	5.143.918	4.205.197
	41.788.354	37.974.293

Revenue from long term assets consist from revenues of assets, land and equipment. Within revenues from long term assets are rental revenues that fall under IAS 17 Rental Contracts. Other revenues above are within IFRS 15 Revenues from contracts with customers. Further description of revenues and timing of the companys revenues can be found in Note 2.

5. Salaries and related expenses

	2018	2017
Salaries	14.015.826	12.838.337
Contribution to defined contribution plans	2.166.032	1.772.964
Payroll taxes	1.099.324	990.759
Salary-related expenses	234.250	201.142
Additional contribution to pension fund and changes in vacation obligation	403.849	564.149
Capitalized employment expenses	(378.803)	(314.699)
Contractor payments	1.688	5.174
Other employee expenses	745.500	684.026
	18.287.666	16.741.851
Average number of employees	1.430	1.350

Total salaries and contribution to defined contribution plans, to the company's CEO for the year 2018 were ISK 38 million, compared to ISK 30,7 millions for the year 2017. The Company´s total salaries and contribution to defined contribution plans to the three boards of the companies in this consolidation, two directors for subsidiaries and executives of the parent company for the year 2018 were ISK 330 million compared to ISK 296,4 million for the year 2017.

6. Fees to auditors

	2018		2017	
	Audit	Other service	Audit	Other service
Deloitte ehf.	23.615	31.044	26.143	28.451

Other services are mainly review of interim financial statement, accounting and tax service and assistance on tax return. Included in other service for the year 2018 are ISK 19,3 million (year 2017: ISK 17,5 million) because of projects that are not related to accounting.

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7. Financial income and expenses

Financial income

	2018	2017
Interest on bank deposits	78.303	108.857
Interest revenue on investments held to maturity	17.040	19.381
Other interest revenue	142.268	97.842
	237.611	226.080

Financial expenses

	2018	2017
Interest expense and indexation	(1.090.648)	(931.555)
Debt collection fee	(72.980)	(86.612)
Interest on late payments	(9.271)	(4.181)
	(1.172.899)	(1.022.348)

Net exchange rate differences

	2018	2017
Net exchange rate differences	(1.604.456)	(810.548)
	(1.604.456)	(810.548)

8. Income tax

Income tax has been calculated and recorded in the Financial Statements, the amount charged in the Income Statement is ISK 1.035,7 million. Income tax payable in the year 2019 is ISK 953,7 million. In year 2017 income tax charged in the Income Statement was ISK 967,7 million and income tax payable in year 2018 was ISK 898,2 million.

The effective tax rate is specified as follows:

	2018		2017	
	Amount	%	Amount	%
Profit before taxes	5.297.352		4.916.324	
Tax rate	1.059.470	20,0%	983.265	20,0%
Non-taxable revenues	(22.500)	(0,4%)	(16.216)	(0,3%)
Joint taxation	1	0,0%	319	0,0%
Other changes	(1.318)	0,0%	371	0,0%
Income tax acc. to Statement of Comp. Income	1.035.653	19,6%	967.738	19,7%

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9. Property, plant and equipment

	Buildings and artwork	Aprons and car parks	Control systems	Other assets	Total
Cost					
Balance at 1 January 2017	30.206.306	9.962.029	4.803.178	11.420.431	56.391.944
Additions	4.082.305	7.308.869	263.030	2.770.609	14.424.814
Disposals	0	0	(189.781)	(886.962)	(1.076.743)
Sold	0	0	0	(36.346)	(36.346)
Balance at 1 January 2018	34.288.611	17.270.898	4.876.427	13.267.732	69.703.669
Revaluation	0	0	(19.858)	(26.363)	(46.221)
Additions	1.376.529	1.520.646	247.211	2.900.817	6.045.203
Disposals	0	(280.783)	(1.127.739)	(322.456)	(1.730.979)
Sold	0	0	0	(87.241)	(87.241)
Balance at 31 December 2018	35.665.140	18.510.762	3.976.041	15.732.489	73.884.432
Accumulated depreciation					
Balance at 1 January 2017	6.030.575	1.506.154	2.301.958	3.631.598	13.470.284
Charge for the year	991.945	545.752	338.178	1.130.041	3.005.915
Disposals	0	0	(189.781)	(728.300)	(918.081)
Sold	0	0	0	(185.991)	(185.991)
Balance at 1 January 2018	7.022.519	2.051.906	2.450.355	3.847.347	15.372.127
Revaluation	0	0	(23.463)	(9.001)	(32.465)
Charge for the year	927.331	701.261	304.736	1.188.944	3.122.272
Disposals	0	(280.783)	(1.127.739)	(322.456)	(1.730.979)
Sold	0	0	0	(42.518)	(42.518)
Balance at 31 December 2018	7.949.850	2.472.383	1.603.889	4.662.316	16.688.437
Book value					
Book value at beginning of year	27.266.092	15.218.993	2.426.072	9.420.386	54.331.542
Book value at year-end	27.715.290	16.038.378	2.372.151	11.070.173	57.195.995

Estimated useful lives of fixed assets are as follows:

Buildings and artwork	7-100 years
Aprons and car parks	5-50 years
Fixtures and machinery	3-20 years
Other assets	3-20 years

Information about the revalued properties in year-end:

	31.12.2018	31.12.2017
Revalued book value	109.707	112.712
Impact of the special revaluation	(53.268)	(54.887)
Book value without impact of revaluation	56.439	57.825

The assessment- and insurance value for the Company's assets is itemized as the following:

	2018		2017	
Consolidation	Assessment value	Insurance value	Assessment value	Insurance value
Buildings and sites	25.899.015	55.900.869	23.499.100	54.968.780
Machinery and equipment, asset insurances		12.133.955		10.926.075
Other insurances		43.440		692.686
Halt insurance		20.562.434		15.440.299

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10. Intangible assets and amortization

Consolidation	Usage agreement on facilities	Usage agreement on runways	Software	Total
Cost				
Balance at 1 January 2017	477.035	5.706.000	1.233.082	7.416.117
Additions	0	0	176.643	176.643
Disposals	0	0	(44.328)	(44.328)
Balance at 1 January 2018	477.035	5.706.000	1.365.397	7.548.432
Revaluation	0	0	16.436	16.436
Additions	0	0	116.918	116.918
Disposals	0	0	(317.527)	(317.527)
Balance at 31 December 2018	477.035	5.706.000	1.181.224	7.364.259
Amortization				
Balance at 1 January 2017	127.209	1.521.600	446.615	2.095.425
Charge for the year	15.901	190.200	118.080	324.181
Disposals	0	0	(44.328)	(44.328)
Balance at 1 January 2018	143.110	1.711.800	520.367	2.375.277
Revaluation	0	0	2.680	2.680
Charge for the year	15.944	190.713	131.996	338.653
Disposals	0	0	(317.527)	(317.527)
Balance at 31 December 2018	159.055	1.902.513	337.516	2.399.084
Book value				
Book value at beginning of year	333.925	3.994.200	845.030	5.173.155
Book value at year-end	317.980	3.803.487	843.708	4.965.176

Due to the development of software intended for sale on the global market in the coming years, the development cost amounts to approximately ISK 62.5 million which was capitalized in calendar years 2012 to 2015. This is due to additions in one of the company's software product which is Tern ATC System or TAS but this software divides into several parts. The software development was completed in the second half of calendar year 2015 and are availble for sale and already in use by clients. The Company has assessed the recoverable amount of this intangible asset and determined that this asset has not suffered an impairment loss. Other software is purchased and its estimated lifespan is 3-20 years.

According to an agreement between Keflavik International Airport ohf., now Isavia ohf. and The Icelandic Defence Agency, now the Icelandic Coast Guard, signed on April 22nd 2009, the Company would take over certain NATO inventory airport facilities and equipment at Keflavik from the beginning of 2009 for the next 30 years. No fees will be charged for the usage but the Company must cover all costs of daily operations and maintenance expenses, to ensure the conditions are in accordance with the regulated standards by The International Civil Aviation Organization. On behalf of NATO inventory, the Icelandic Coast Guard has the right to use these facilities of which the usage rights are recognised proportionately over the lease term.

11. The Consolidation

The Consolidated Financial Statements of Isavia ohf. consists of the parent Company and the following subsidiaries:

	Ownership%	Nominal amount	Principal activity
Shares in subsidiaries			
Duty Free Store ehf., Keflavik Airport	100,00%	50.000	Retail and commerce
Tern Systems ehf., Kopavogur	100,00%	80.000	Software and consulting
Domavia ehf., Reykjavik	100,00%	500	Real estate business
Suluk ApS, Greenland	100,00%	1.999	Services of air traffic controllers

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12. Bonds and other long term assets

	31.12.2018	31.12.2017
Bond loan, weighted average of interest rate 5,48%.	190.481	225.226
Current maturities	(37.514)	(36.964)
	152.967	223.530

Bonds and long term assets installments are specified as follows:

	31.12.2018	31.12.2017
Year 2018	-	36.964
Year 2019	37.514	37.277
Year 2020	37.852	37.605
Year 2021	38.205	37.947
Year 2022	38.575	38.305
Year 2023	8.961	8.678
Installments later	29.374	28.449
	190.481	225.226

There is an insignificant difference between the fair value and the book value of financial assets in the management's opinion.

13. Inventories

	31.12.2018	31.12.2017
Goods for resale	623.666	538.977
Goods in transit	63.731	19.841
Allowance for old and obsolete inventory	(12.636)	(12.097)
	674.761	546.721

Changes in allowance for old and obsolete inventory:

At the beginning of the year	(12.097)	(14.665)
Reversed allowance for old and obsolete inventory	(32.887)	(18.330)
Inventories written off	32.348	20.898
At year-end	(12.636)	(12.097)
Insurance value of inventories	699.387	686.549

No inventories have been pledged at year-end 2018.

The Company´s plan is to sell all of its inventories in next 12 months.

14. Other financial assets

Accounts receivables

	31.12.2018	31.12.2017
Domestic receivables	5.033.487	2.963.459
Foreign receivables	833.541	645.247
Construction contracts	0	109.165
Allowances for doubtful accounts	(250.684)	(132.026)
Receivables Joint Finance contract	408	1.068.034
	5.616.752	4.653.881

Construction contracts consist of two contracts. In the year 2017 a contract was made regarding installation of system for four largest airports in South-Korea and that contract is still in progress. Also the company made a contract regarding installation on a system at Jeju Island in South-Korea which is still not finished. At the end of year 2018 the company has no credit because of these contracts. At the same time last year the credit was ISK 109,2 million because of contracts.

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14. Other financial assets (continued)

Aging and allowance for doubtful accounts

Changes in the allowance for doubtful accounts:

	31.12.2018	31.12.2017
At the beginning of the year	(132.026)	(58.289)
Impairment loss recognized on receivables	(122.947)	(73.737)
Amounts written off as uncollectable	4.289	0
At year-end	(250.684)	(132.026)

Allowance has been made for doubtful accounts. This allowance has been determined by management in reference to past default experience. Allowance in the year end 2018 has been valued according to IFRS9, but allowance in the year end 2017 is valued according to IAS 39, see below:

Value of allowance for doubtful accounts in accordance with IFRS 9 is following:

The Company assesses the allowance for doubtful accounts based on the likelihood of default occurring any time during the life of the receivables. Accounts receivables are divided into age groups and impairment loss estimated for each age group that is based on experience of previous years, management estimates and future prospects in the client's economic environment. It is the opinion of the Company's management that the carrying amount of accounts receivables and other receivables reflects their fair value.

The company is of the opinion that objective evidence of impairment is present if the information from the company or outside parties indicate that the debtor is in financial difficulties or if receivables are more than 90 days past due.

Analysis of aging and allowance for doubtful accounts at the balance sheet date were as follows:

	31.12.2018			
	Expected loss	Gross amount	Allowance	Book value
Receivables not yet due	2%	3.234.799	46.219	3.188.580
1-90 days	4%	1.369.437	57.156	1.312.282
91-180 days	10%	1.089.124	112.253	976.871
181-270 days	20%	44.602	8.797	35.804
> 271 days	20%	129.066	26.259	102.807
Total		5.867.028	250.684	5.616.344

Analysis of aging and allowance for doubtful accounts at the year end 2017 were according to IAS 39 and were as follows:

	31.12.2017	
	Gross amount	Allowance
Receivables not yet due	2.007.007	24.914
1-90 days	1.471.454	56.057
91-180 days	183.902	24.787
181-270 days	30.367	17.682
> 271 days	25.141	8.585
	3.717.872	132.026

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14. Other financial assets (continued)

Other receivables

	31.12.2018	31.12.2017
Value added tax, receivables	5.214.471	4.005.085
Prepaid expenses	87.424	96.191
Capital income tax	18.312	34.709
Prepaid salaries	51.355	60.032
Other receivables	382.827	320.464
	5.754.389	4.516.482

The company's claim for value added tax consists mainly of unprocessed VAT reports from the Directorate of Internal Revenue for the period September 2016 to December 2018. The Directorate of Internal Revenue has questioned the validity of the assumption of value added tax registration that the company serves international flights at Keflavík Airport, according to article 12 in the Act on Value Added Tax, and the company does not therefore have the right to use a zero tax rate method and get VAT refunded from purchased supplies and services at the same time. The company on the other hand believes that this important assumption was in place when the company was established. The company has made it's argument but The Directorate of Internal Revenue has not ruled on the matter. The financial statement for the year 2018 is done according to the methodology that has been used since the company was established in the year 2010.

If the ruling of the matter becomes unfavorable for the company, the impact can be significant. The estimated effect on the financial statements for the period will be a decrease in the operating income for the period by 862 million ISK, increase in tangible fixed assets by 4.623 million ISK while the corresponding decrease in other short-term claims is the same. There will also be a decrease ISK 690 million in equity after taking into account tax effects.

Changes have been made to the Value Added Tax Act that eliminates all doubt about the company's authorization to apply the methodology that has been applied since the establishment of the company. This change came into force on January 1st 2019. Different interpretations of the company and the Dircector of Internal Revenue on the provisions of the VAT act now only relate to the submission of value added tax reports for the period from September 2016 to December 2018 or until the time the amendment to the Ace came into force.

Bank balances and cash

The Company´s cash and cash equivalent consist of cash and bank balances.

	31.12.2018	31.12.2017
Bank balances in ISK	1.624.126	1.354.884
Bank balances in foreign currencies	2.803.972	1.738.149
Redemption accounts	1.001.250	0
Cash in ISK	6.779	8.254
	5.436.127	3.101.287

15. Equity

Share capital is specified as follows:

	Shares	Ratio	Amount
Total share capital at year-end	5.589.063	100,0%	5.589.063
	5.589.063	100,0%	5.589.063

Each share of one ISK carries one vote. The Ministry of Finance carries the voting rights on behalf of the Icelandic Treasury. All shares have been paid in full.

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16. Long term borrowings

	Loans from credit institutions	
	31.12.2018	31.12.2017
Liabilites in EUR	27.851.711	24.611.729
Liabilites in USD	2.892.813	2.764.134
Liabilites in ISK	6.016.029	6.363.030
	36.760.553	33.738.894
Current portion of long term liabilities	(3.133.778)	(8.223.715)
Non-current liabilities at year-end	33.626.775	25.515.178

Change in liabilities for the year is following:

Liabilities at beginning of the year	33.738.894	24.206.482
New liabilities in the year	9.824.100	9.984.250
Installments for the year	(8.514.747)	(1.234.444)
Exchange rate difference and indexation	1.712.306	782.605
Liabilities at the end of the year	36.760.553	33.738.894

Installments of non-current liabilities are specified as follows:

	Loans from credit institutions	
	31.12.2018	31.12.2017
Installments in 2018		8.223.715
Installments in 2019	3.133.778	4.634.826
Installments in 2020	5.068.473	1.409.903
Installments in 2021	1.494.920	1.416.623
Installments in 2022	1.408.541	1.332.836
Installments in 2023	1.669.171	1.334.825
Installments later	23.985.670	15.386.166
	36.760.553	33.738.894

Loans amounting to ISK 35.642,8 million are subject to financial covenants regarding equity ratio. Thereof loans amounting to ISK 22.120,3 million are also subject to condition of net interest bearing debts/EBITDA ratio. The financial covenants are reviewed on a regular basis and it is management view that they are unlikely to be breached.

17. Deferred tax liability

	31.12.2018	31.12.2017
Balance at beginning of the year	2.056.586	1.987.019
Effects from joint taxation	0	(3.992)
Calculated income tax for the year	1.035.653	972.229
Income tax payable for the next year	(953.694)	(898.670)
Translation exchange difference	93	0
Balance at the end of the year	2.138.638	2.056.586

Deferred tax balances consist of the following account balances

	31.12.2018	31.12.2017
Property, plant and equipment	2.400.675	1.974.767
Current assets	(559)	2.594
Other items	(256.442)	1.138
Exchange differences	(5.036)	78.087
	2.138.638	2.056.586

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18. Other financial liabilities

Accounts payable

	31.12.2018	31.12.2017
Domestic accounts payable	1.508.057	1.890.185
Foreign accounts payable	350.523	386.814
	1.858.581	2.276.999

Current maturities of long-term liabilities

	31.12.2018	31.12.2017
Loans from credit institutions	3.133.778	8.223.715
	3.133.778	8.223.715

Other current liabilities

	31.12.2018	31.12.2017
Value added tax, payable	30.388	23.596
Deferred revenue	13.477	13.232
Accrued additional contribution to pension fund	295.460	292.551
Salaries and related expenses payable	696.103	645.885
Accrued holiday commitment	1.304.353	1.227.694
Accrued interest, payable	159.662	150.669
Other liabilities	92.097	88.311
Deferred revenue	226.223	129.791
Unfinished construction contract	37.004	455
	2.854.767	2.572.183

19. Financial risk

Financial instruments

The consolidated financial assets and liabilities are specified into following types of financial instruments:

Financial assets	31.12.2018	31.12.2017
Bank balance and cash	5.436.127	3.101.287
Financial assets that are intended to hold to maturity	190.481	225.226
Loans and receivables	11.232.362	9.014.140

Financial liabilities	31.12.2018	31.12.2017
Other financial liabilities	42.427.594	39.486.228

Financial assets which are intended to hold to maturity, loans and advances and other financial liabilities are measured at amortized cost with effective interest method less impairment.

Risk management

The company has established a risk policy and has an active risk management that has the role of assessing and managing the risk factors that the company has. The risks under active risk management are market risk, counterparty risk and liquidity risk. There are also other risks related to, operations, reputation, management and other factors that have been mapped and evaluated on the basis of seriousness and probability. The Risk Committee of the Company regularly meets about issues related to risk management.

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19. Financial risk (continued)

Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate changes affect the expected cash flow of assets and liabilities which bear floating interest rates.

Sensitivity analysis

In the analysis below the effects of 50 and 100 basis points increase on profit or loss and equity are demonstrated. The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared assuming the amount outstanding at the balance sheet date was outstanding for the whole year. The analysis assumes that all other variables than basis points are held constant. The sensitivity analysis does take into account tax effects. A positive amount below indicates an increase in profit and other equity. A decrease in basis points would have an opposite impact on income statement and equity.

Effects on profit or loss and other equity are the same as change in valuation of the underlying financial instruments is not charged directly to equity. Positive amount indicates increased profits and equity. Lower interest rates would have the same effect but in the opposite direction:

	31.12.2018		31.12.2017	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on profit or loss and other equity	(88.085)	(176.169)	(116.511)	(233.022)

Foreign currency risk

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. Foreign currency risk exposure does arise when there is a difference between assets and liabilities denominated in foreign currency.

The majority of assets of the Company are in the local currency, but some of the financial assets are denominated in foreign currency. The majority of the liabilities of the Company are denominated in foreign currencies. Following table details the currencies that affect the operations of the Company. Rates and volatility in exhange rates are based on mid rates.

	Year-end rate		Average rate	
Currency	2018	2017	2018	2017
EUR	133,23	125,05	127,73	120,54
GBP	148,33	140,98	144,35	137,45
JPY	1,057	0,928	0,980	0,951
CHF	118,23	107,07	110,72	108,43
DKK	17,84	16,80	17,14	16,20
NOK	13,40	12,73	13,31	12,93
SEK	13,02	12,71	12,46	12,52
USD	116,33	104,42	108,38	106,78
CAD	85,47	83,32	83,61	82,36
HUF			0,40	

Foreign currency risk 31.12.2018

	Assets	Liabilities	Net balance
EUR	2.648.281	28.132.478	(25.484.197)
GBP	680.592	13.425	667.167
JPY	1.684	0	1.684
CHF	3.904	10.714	(6.810)
DKK	156.023	33.603	122.420
NOK	3.431	2.358	1.072
SEK	2.421	185	2.236
USD	158.307	2.946.636	(2.788.329)
CAD	2.515	0	2.515
HUF	2.292	1.358	935

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Notes

19. Financial risk (continued)

Foreign currency risk 31.12.2017

	Assets	Liabilities	Net balance
EUR	2.180.470	24.863.853	(22.683.383)
GBP	36.376	19.263	17.112
JPY	832	0	832
CHF	6.801	12.074	(5.273)
DKK	78.037	6.871	71.166
NOK	1.293	7.171	(5.878)
SEK	915	2.016	(1.101)
USD	309.855	2.962.730	(2.652.875)
CAD	3.385	0	3.385

Sensitivity analysis

The table below shows what effects 5% and 10% increase of the relevant foreign currency rate against the ISK would have on profit or loss and other equity based on the balance of assets and liabilities in the relevant currency at the reporting date. The table above details monetary assets and liabilities that are denomintated in foreign currency and the sensitivity analysis apply to. The foreign currency assets and liabilities in the sensitivity analysis are mainly foreign currency borrowings and foreign currency bank balances. The analysis assumes that all other variables than the relevant foreign currency rate are held constant. The sensitivity analysis covers the currencies that include the most exchange rate risk. The sensitivity analysis does take into account tax effects and therefore reflects the impact on the income statement and equity. The effect on profit or loss and equity are the same as the change in valuation of underlying financial instruments in foreign currency is not in any case recognized directly in equity. Change of the ISK by 5% and 10% against the currencies below would have had the same effect but in the opposite direction.

Effects on profit or loss and equity	**31.12.2018**		**31.12.2017**	
	5%	10%	5%	10%
EUR	(1.019.368)	(2.038.736)	(907.335)	(1.814.671)
GBP	26.687	53.373	684	1.369
JPY	67	135	33	67
CHF	(272)	(545)	(211)	(422)
DKK	4.897	9.794	2.308	4.615
NOK	43	86	(235)	(470)
SED	89	179	(44)	(88)
USD	(111.533)	(223.066)	(106.115)	(212.230)
CAD	101	201	135	271
HUF	37	75		

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss for the Company. The Company actively monitors the changes to its credit risk. A more detailed description of the Company's assessment of expected loan losses due to financial assets can be found in Notes 2 and 14. The Company has no write-down on bond assets that are low amounts and the estimate of the management is that the write-down would be insignificant.

	31.12.2018	31.12.2017
Bonds and other long term assets	190.481	225.226
Accounts receivables	5.616.752	4.653.881
Other receivables	5.615.610	4.360.259
Bank balances and cash	5.436.127	3.101.287
	16.858.970	12.340.652

The maximum risk of the Company is the carrying amount itemized above.

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19. Financial risk (continued)

Liquidity risk management

Liquidity risk is the risk that the Company has difficulties to meet its financial commitments in the near future. On a regular basis the Company monitors the liquidity balance, development and the effects of market environment.

	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2018				
Non-interest bearing	5.667.042	0	0	5.667.042
Floating interest rates	3.020.407	9.052.786	15.553.646	27.626.839
Fixed interest rates	113.371	588.319	8.432.024	9.133.714
	8.800.819	9.641.105	23.985.670	42.427.594
Assets 31.12.2018				
Non-interest bearing	11.233.388	0	0	11.233.388
Floating interest rates	5.472.615	123.593	29.374	5.625.582
	16.706.003	123.593	29.374	16.858.970
Net balance 31.12.2018	7.905.184	(9.517.512)	(23.956.296)	(25.568.624)

	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2017				
Non-interest bearing	5.747.334	0	0	5.747.334
Floating interest rates	8.119.749	8.405.433	16.027.382	32.552.564
Fixed interest rates	103.966	388.755	693.609	1.186.330
	13.971.050	8.794.187	16.720.991	39.486.228
Assets 31.12.2017				
Non-interest bearing	9.016.248	0	0	9.016.248
Floating interest rates	3.136.142	151.134	37.128	3.324.404
	12.152.391	151.134	37.128	12.340.652
Net balance 31.12.2017	(1.818.659)	(8.643.053)	(16.683.863)	(27.145.576)

20. Other issues

Revenues of International Air Navigation Services

On the basis of a service agreement with the Ministry of the Interior, the Company offers air navigation services within the Icelandic, Greenland, and Faroese airspaces in accordance with the Icelandic Government's commitments in international agreements. For this obligation, there is a so called Joint Financing Agreement which was signed in 1956 between 13 member countries of ICAO, The International Civil Aviation Organization. These member countries are now 24. The users of the service pay for the service in full.

Court Proceedings

In the year 2015 Drífa ehf. started Court proceedings against Isavia ohf. demanding compensation for alleged damages in connection with the pre-qualification process when renting commercial space in the duty free area of Leifur Eiríksson Air Terminal. A selection committee considered an offer from another bidder more advantageous. The amount of Compensation claimed is ISK 1,5 billion. Isavia ohf. is on the opinion that it acted in accordance with the pre-qualification procedure and the lawsuit is without merit.

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Notes

21. Other obligations

Operating license

Isavia ohf. holds a license from the Iceland Civil Aviation Administration for the operations of air navigation services under regulation No. 1129/2014 and a license for the operation of airports according to regulation No. 464/2007. The Company is also a holder of flight operating license to operate aerial work (flight test etc.) according to regulation No. 97/2009. The licenses are granted for variable periods. Licenses for the operations of air navigation service is valid until 2021 and Keflavik Airport, Reykjavik Airport, Akureyri Airport and Egilsstadir Airport are valid for an indefinite period. Registered landing area or other airports including airports for scheduled flights are valid for an indefinite period.

Under its operating license the Company is required to respect and meet all obligations within the range of responsibilities and the operational area of the airport, the runways and terminal at Keflavik Airport which the Icelandic goverment has undertaken, and may undertake.

In times of war, and in emergencies, the Company shall be obliged to grant the American Military Authorities, use of airport facilities at Keflavik Airport. The International and Security Affairs Department of the Ministry for Foreign Affairs shall be responsible for liaising between the Company and the American Military Authorities, whether directly or indirectly.

Service agreement for construction

The service agreement between the Ministry of the Interior and the Company applies to maintenance and construction of airports others than Keflavik Airport. The company works with the Ministry of the Interior and prepares a proposal for maintance and construction which the company believes is neccessary to perform in accordance with the National Transportation Policy. The construction projects are included in this plan and are therefore agreed, according to the transportation policy. Payments are received according to a payment plan. In 2018 the amount for construction projects was in total ISK 150,5 million (2017: ISK 246,9 million).

Service agreements for operations

On the basis of the service agreement with the Ministry of the Interior the Company provides navigation services in local airspace; operations, maintance and construction of airports and landing strips and publishes the AIP handbook.

The Company is obliged to have in effect all legally binding insurance including liability insurance for air traffic control and airports. The liability coverage at year-end for air traffic control and airports for the year 2019 amounted to USD 1.500.000.000.

The Company's legally binding insurance is exempt from liability due to acts of terrorism. The Company has procured insurance against terrorism covering damage in air navigation services and airports for the year 2019 amounting to approximately USD 1.500.000.000.

The Company has purchased insurance for the company's airplane TF-FMS that amounted USD 2.500.000.

The Company has purchased an idemnity insurance for the Board of Directors and Management which covers a loss up to ISK 300.000.000.

Obligation due to employees

The Company has insured all its employees in accordance with applicable collective agreements, except certificates of insurance for air traffic controllers. According to collective agreements, the Company shall at its own expense ensure certification of each controller that has VFR and/or IFR qualifications. The Company has not purchased insurance and therefore has an obligation in accordance with applicable collective agreements, if loss of certifications occurs.

22. Related parties

Related parties are those parties which have considerable influence over the Company, directly or indirectly, including parent company, owners or their families, large investors, key employees and their families and parties that are controlled or dependent on the Company, i.e. affiliates and joint ventures. Isavia ohf. is a government owned private limited company and partial exemption is provided from the disclosure requirements for government-related entities in the revised version of IAS 24.

Disclosures regarding salaries for the Board of Directors and Managing Director is explained in note no. 5. Sales of goods and service to key management personnel and related parties are immaterial.

23. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on March 7th, 2019.

Notes

24. Consolidated ratios

From Statement of Comprehensive Income:	2018	2017
Profitability		
Earnings before interests, taxes, depreciation and amortisation (EBITDA)	11.298.021	9.853.236
a) Contribution margin on operation	27,04%	25,95%
b) Profit margin on operating revenue	10,20%	10,40%
c) Earning per share (EPS)	0,76	0,71
d) Return on equity	12,86%	13,60%

a) EBITDA/total revenue
b) Net income/total revenue
c) Earnings per share (EPS)
d) Net income/average equity

From Balance sheet:	31.12.2018	31.12.2017
Activity ratios		
e) Investment in inventories	0,02	0,01
f) Rate of return on assets	0,55	0,58
g) Inventory turnover	10,71	10,96
h) Receivables turnover	8,14	10,43

e) Inventory/revenues
f) Net income/average total assets
g) Cost of goods sold/average inventory
h) Reveneus/average accounts receivables

Liquidity ratios		
i) Quick or acid-test ratio	1,91	0,88
j) Current ratio	1,99	0,92
k) Net Interest Bearing Debts/EBITDA	2,77	3,11

i) (Current assets - inventories)/average total assets
j) Current assets/current liabilities

Coverage ratios		
l) Equity ratio	44,18%	42,74%
m) Internal value of shares	6,31	5,55

l) Shareholders equity/total assets
m) Shareholders equity/capital stock

From Cash flow:	2018	2017
n) Net cash debt coverage	0,16	0,08
o) Quality of sales	1,68	0,80
p) Quality of net profit	1,12	0,76

n) Cash flow from operat./Total liabilities
o) Paid in revenue/stated revenue
p) Cash flow from operat./net profit

Operating expenses as percentage of revenues	2018	2017
Cost of goods sold/income from retail division	15,65%	15,39%
Salaries and related expenses/operating revenues	43,76%	44,09%
Administrative expenses/operating revenues	1,30%	1,65%
Other operating expenses/operating revenues	12,25%	12,93%
Depreciation and amortization/operating revenue	8,28%	8,77%
Operating expenses/operating revenues	81,25%	82,82%

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25. Segment reporting

Segment information are disclosed on basis of organizational structure and internal management information. Segments are divided on basis of three operational components from the parent company and support divisions are included in others. Majority of Air navigation component consists of service to carriers granted on basis of the Joint Finance Agreement. Domestic systems are operation of airports and airport control towers for domestic flights. Keflavik airport are operation of airport and control tower in Keflavik in addition to Leifur Eiriksson Air Terminal. Revenue from the parent company's biggest clients are from Icelandair Group amounts ISK 7.478,7 million or about 23% (2017: Icelandair Group ISK 6.879,8 million; 23%) and from Duty Free amounts ISK 4.596,2 million or about 14% (2017: Duty Free amounts ISK 4.166,5 million; 14%).

Comprehensive income from Domestic airports is to a large extent based on a service agreement between the government and Isavia ohf. The operating profit in this segment reporting does not take into account the cost of capital from what Isavia has invested in non current assets that are used for the Domestic airports operation. From the year 2011 the aggregated operating profit before financial income and expenses has been ISK 110,4 million while Isavia estimated aggregated cost of capital because of these investments are about ISK 370,7 million. Therefore operating profit from the operation of the Domestic Airports in the years of 2011 – 2018 is considerably too low to cover the cost of capital from the investments in the current assets.

Within the income of segments are lease income that amounts ISK 8.149,2 million (2017: about 7.073,7 million) which fall within the scope of IAS 17 Leases. Other revenue specified above are within the scope of IFRS 15 Revenue from contracts with customers. More detailed description of the nature of revenue and timing can be found in note number 2.

Segment information year 2018	Air-navigation	Domestic Airports	Keflavik Airport	Duty Free Store	Others	Eliminations	Consolidated
Revenue:							
External revenue	7.225.351	2.484.642	18.392.965	13.479.989	205.407		41.788.354
Inter-segment revenue	756.893	43.592	4.631.737		829.230	(6.261.452)	0
Total revenue	7.982.245	2.528.233	23.024.702	13.479.989	1.034.637	(6.261.452)	41.788.354
Comprehensive income:							
Operating profit	625.204	81.669	6.969.132	193.503	(32.412)		7.837.095
Net financial income / (expenses)							(2.539.744)
Profit before taxes							5.297.352
Total comprehensive income							4.261.698
Balance sheet:							
Non-current assets	4.024.807	1.318.038	55.504.853	375.621	1.655.112	(564.293)	62.314.137
Other assets unallocated to segments							17.519.544
Total assets							79.833.681
Total liabilities							44.566.233
Other information:							
Capital additions	522.858	199.310	5.280.969	64.354	94.631		6.162.121
Depreciation and amortization	321.443	107.097	2.876.055	100.060	56.270		3.460.925

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Notes

25. Segment reporting (continued)

Segment information year 2017	Air-navigation	Domestic Airports	Keflavik Airport	Duty Free Store	Others	Eliminations	Consolidated
Revenue:							
External revenue	6.766.500	2.391.179	16.305.631	12.256.870	254.114		37.974.293
Inter-segment revenue	735.691	66.061	4.255.892	0	655.589	(5.713.232)	0
Total revenue	7.502.190	2.457.240	20.561.523	12.256.870	909.703	(5.713.232)	37.974.293
Comprehensive income:							
Operating profit	608.307	104.233	5.745.106	241.244	(16.058)	(159.692)	6.523.140
Net financial income / (expenses)							2.303.887
Profit before taxes							8.625.890
Total comprehensive income							6.922.830
Balance sheet:							
Non-current assets	3.894.852	1.226.600	52.686.490	412.152	2.037.157	(564.293)	59.692.959
Other assets unallocated to segments							10.762.737
Total assets							59.229.033
Total liabilities							32.172.170
Other information:							
Capital additions	586.158	411.516	13.055.694	157.419	385.252		14.596.038
Depreciation and amortization	307.669	91.221	2.780.835	95.834	54.537		3.330.096

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