isavia

Financial statement

2019

Isavia ohf.

Consolidated
Financial Statements

2019

These consolidated financial statements are translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

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

Isavia ohf.

Consolidated
Financial Statements

2019

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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 2019 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 2019 amounted to ISK 38.454 million and had decreased ISK 3.334 million from previous year. Net income for the year 2019 amounted to ISK 1.199 million which is a ISK 3.063 million decrease from previous year. Accounts receivables that amount ISK 2.048 million were recorded to allowance for doubtful accounts regarding uncertainty of the insolvency of Wow air. Negative foreign exchange rate losses amounts about ISK 560 million for the year 2019 and amounted ISK 1604 million for the previous year. According to the Consolidated Statement of Financial Position, total assets has increased ISK 809 million during the year 2019 and amounted to ISK 80.643 million at year end. The Company´s total equity at year end 2019 is ISK 36.466 million and had increased ISK 1.198 million since year end 2018. The Company's equity ratio is 45,2% at the end of the year 2019 compared to 44,2% at the end of the year 2018. The number of full-time staff equivalents throughout the year 2019 was 1.360.

The Board of Directors propose that the profit for the year 2019 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 March 2019.

Isavia follows a policy of corporate social responsibility and is a party to the UN Global Compact (UNGC). By virtue of its participation the company undertakes to ensure that its policies and work practices are in accordance with the ten basic rules of the United Nations on human rights, work issues, environmental issues and actions against corruption. Isavia also undertakes to participate in projects supporting the UN‘s Sustainable Development Goals (SDG's) and works systematically towards them.
Isavia issues an annual and corporate social responsibility (CSR) report according to the criteria of the Global Reporting Initiative (GRI) with special provisions for airports. In the report consideration is given to the company‘s emphasis, objectives, key metrics and results in social responsibility. The report is published as a progress report to the UNGC and to the GRI. Further information regarding non-financial matters are to be found in Isavia‘s annual and CSR report.

At the beginning of year 2020, the Board of Directors received instructions from the shareholder of Isavia, that as of year 2020 the Company should temporarily take over financial responsibility for the operation of Egilsstadir Airport. Such a measure is in contradiction to the instructions of the general ownership policy from the Icelandic State and therefore these instruction needed to be made from the shareholder. The shareholder then requested that the company's Board of directors would in the year 2020 work with the Ministry of Transport and Communications on the formal transfer of the financial obligation of Egilsstadir Airport. Since Egilsstadir Airport is financially unsustainable and under State control it is clear that this shareholder's decision will have a direct negative impact on the Company's financial position unless new financing options are put in place, as stated in the shareholder's letter. Estimated impact on the company's performance before depreciation and financial items are negative at around ISK 470 million for the year 2020, but that figure can be expected to rise due to maintenance needs at Egilsstadir Airport.

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 Consolidation´s net income, assets, liabilites and cash flow in the year 2019. 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 15 with the consolidated financial statements, but the Consolidation 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 Consolidation'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 Consolidation´s operating performance, as well as describing the principal risk and uncertainty factors faced by the Consolidation.

Statement by the Board of Directors and Managing Director

The Board of Directors and the Managing Director today hereby confirm the Company´s Consolidated Financial Statements for the year 2019 with their signature.

Reykjavík, March 10 2020

Board of Directors

Orri Hauksson
Chairman of the Board

Eva Pandora Baldursdóttir	Nanna Margrét Gunnlaugsdóttir
Matthías Páll Imsland	Valdimar Halldórsson

Managing director

Sveinbjörn Indriðason

The Auditor General's Report

To the Board of Directors and Shareholders of Isavia ohf.

Expectations, role and responsibilities of the Auditor General
The Auditor General operates based on Act no. 46/2016, on the Auditor General and the auditing of government accounts and the Code of Ethics set by the International Organization for Supreme Audit. The role of the Auditor General is to ensure that audits and controls are in accordance with Article 4 of the Act.

The Auditor General is responsible for the work of the Auditors, who work with the Icelandic National Audit Office and perform an audit based on the Act on Auditors and audit, Act on Financial statements and other general rules that they comply with according to International Standards on Auditing

The Audit was conducted in accordance with Act no. 46/2016 on the Auditor General and audit of state accounts and Act no. 94/2019 on Auditors and auditing.

The Icelandic National Audit Office, March 10, 2020.

Skúli Eggert Þórðarson,
The Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Isavia ohf.

Opinion
We have audited the consolidated financial statements of Isavia ohf. for the year ended December 31, 2019. The consolidated financial statements comprise the income statement, the balance sheet, the statement of changes in equity, statement of cash flows, notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Isavia ohf. as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Comment
Without making modification to our opinion we want to pay attention to note number 15 in the Financial statement, addressing the uncertainty regarding collecting claim on the State Treasury for value added tax.

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. and have conducted our work in accordance with Act no. 94/2019 on Auditors and auditing and Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the consolidated financial statement.

Other information
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 CEO for the Consolidated Financial Statements

The Board of Directors and the CEO 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 CEO 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 CEO are responsible for assessing Isavia ohf. ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for monitoring the preparation and presentation of the consolidated financial statements.

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 it 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

The Icelandic National Audit Office, March 10, 2020

Hinrik Þór Harðarson
State Authorized Public Accountant

Birgir Finnbogason
State Authorized Public Accountant

Consolidated income statement year 2019

	Consolidation 2019	2018
Operating revenues	38.453.968	41.788.354
Cost of goods sold	(6.406.081)	(6.540.646)
Salaries and related expenses	(18.038.411)	(18.287.666)
Administrative expenses	(540.490)	(543.804)
Other operating expenses	(4.792.641)	(5.000.034)
Allowances for doubtful accounts	(1.900.909)	(118.183)
Operating profit before depreciation	6.775.436	11.298.021
Depreciation and amortization	(3.869.281)	(3.460.925)
Operating profit	2.906.155	7.837.095
Financial income	274.563	237.611
Financial expenses	(1.124.760)	(1.172.899)
Net exchange rate differences	(560.192)	(1.604.456)
Profit before taxes	1.495.766	5.297.352
Income tax	(296.882)	(1.035.653)
Profit for the year	1.198.885	4.261.698

Consolidate Financial Statements of Isavia ohf. 2019 5 All amounts are in thousands of ISK

Consolidated Statements of Financial Position

Assets	Consolidation 31.12.2019	31.12.2018
Non-current assets		
Property, plant and equipment	57.549.596	57.195.995
Intangible assets	4.736.573	4.965.176
Right of use asset	167.222	0
Bonds	116.587	152.967
	62.569.978	62.314.137
Current assets		
Inventories	589.823	674.761
Accounts receivables	2.309.563	5.616.752
Current maturities of long-term assets	38.062	37.514
Other receivables	5.968.896	5.754.389
Cash and cash equivalents	9.166.641	5.436.127
	18.072.985	17.519.544
Total assets	80.642.963	79.833.681
Equity and liabilities		
Equity		
Share capital	5.589.063	5.589.063
Statutory reserves	2.483.798	2.483.798
Revaluation reserves	42.360	43.684
Retained earnings	28.350.724	27.150.903
Total equity	36.465.945	35.267.448
Non-current liabilities		
Loans from credit institutions	32.711.473	33.626.775
Lease agreements	111.548	0
Deferred tax liabilities	2.054.905	2.138.638
	34.877.925	35.765.413
Current liabilities		
Accounts payable	2.336.079	1.858.581
Current maturities of loans from credit institutions	3.339.425	3.133.778
Current maturities of lease agreements	58.506	0
Current tax liabilities	380.618	953.694
Other current liabilities	3.184.464	2.854.767
	9.299.092	8.800.819
Liabilities	44.177.018	44.566.233
Total equity and liabilities	80.642.963	79.833.681

Consolidate Financial Statements of Isavia ohf. 2019 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 2018	5.589.063	2.483.798	45.007	22.887.611	31.005.480
Depreciation of revaluation	0	0	(1.324)	1.324	0
Translation 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	35.267.449
Opening balance at 1 January 2019	5.589.063	2.483.798	43.684	27.150.904	35.267.449
Depreciation of revaluation	0	0	(1.324)	1.324	0
Translation difference	0	0	0	(388)	(388)
Comprehensive income	0	0	0	1.198.885	1.198.885
Balance at 31 December 2019	5.589.063	2.483.798	42.360	28.350.724	36.465.945

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

Consolidate Financial Statements of Isavia ohf. 2019 5 All amounts are in thousands of ISK

Consolidated Statement of Cash Flows

	Consolidation	
	2019	**2018**
Cash flows from operating activities		
Operating profit	2.906.155	7.837.095
Depreciation and amortization	3.869.281	3.460.925
Accounting provision of current assets	1.907.871	119.197
Loss (gain) on disposal of assets	2.359	(12.982)
Operating cash flow before changes in operating assets and liabilities	8.685.666	11.404.236
Changes in inventories	85.148	(128.579)
Changes in operating assets	1.223.764	(2.304.507)
Changes in operating liabilities	796.497	(162.219)
Cash generated from operations	10.791.076	8.808.930
Interest income received	323.154	371.525
Interest expenses paid	(1.129.026)	(1.132.554)
Income taxes paid	(953.694)	(898.152)
Net cash generated from operating activities	9.031.510	7.149.749
Investing activities		
Acquisition of property, plant and equipment	(3.822.729)	(6.045.203)
Sale of property, plant and equipment	11.063	57.704
Acquisition of intangible assets	(123.853)	(116.918)
Installments on bonds	40.797	40.488
	(3.894.722)	(6.063.928)
Financing activities		
Repayment of borrowings	(1.325.161)	(8.514.747)
New long-term borrowing	0	9.824.100
Installments of leases	(57.755)	0
	(1.382.916)	1.309.353
Net change in cash and cash equivalents	3.753.872	2.395.173
Cash and cash equivalents at the beginning of the year	5.436.127	3.101.287
Effect of foreign exchange rates	(23.358)	(60.333)
Cash and cash equivalents at the end of the year	9.166.641	5.436.127

Consolidate Financial Statements of Isavia ohf. 2019 5 All amounts are in thousands of ISK

Notes

1. General information

Isavia ohf. (the Consolidation) 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 Consolidation 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., Isavia ANS ehf., Isavia Innanlands ehf., 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 2019, new and revised.

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

In the current year, the Company, for the first time, has applied IFRS 16 Leases. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease requires and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 11. The impact of the adoption of IFRS 16 on the Consolidation's financial statements is described below.

The Consolidation has applied IFRS 16 using the modified retrospective approach, with no restatement of comparative information. The Company has elected to apply the practical expedient to grandfather the definition of a lease on transition, and thereby applying IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

With the application of IFRS 16, the nature of expenses related to operating leases will now change because the Consolidation will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease. As a result, the application of IFRS 16 led to a decrease in profit of the year 2019 by ISK 2,7 million. The effects on PnL line items are as follows: Increase in depreciation and amortisation expense by ISK 61,1 million, increase in finance cost by ISK 7,8 million and decrease in operating expenses by ISK 66,3 million.

At initial application on 1 January 2019 the Company recognised additional lease liabilities of 181,9 million and a right-of-use asset in the same amount. The weighted average incremental borrowing rate used for discounting the lease liability cash flows at 1 January 2019 was determined 4,89%.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities in the year 2019 has increased by ISK 58,5 million and net cash used in financing activities increased by the same amount.

The fundamental accounting principles

The Consolidated Financial Statements are prepared on the basis of cost, except certain fixed assets are valued according to the revaluation method. An assessment of the fair value of financial assets and financial liabilities is provided in the notes below. The Condensed Consolidated Financial Statements are presented in Icelandic krona (ISK), which is the functional currency of the Consolidation.

The following is a summary of the consolidations main accounting policies.

2. Summary of Significant Accounting Policies (continued)

Consolidation

The Consolidated Financial Statements include the Parent Company Financial Statements and the Financial Statements of the companies under its control (subsidiaries) at the reporting date. Control exists when the parent Company has legal right of decision over the investment, is at risk or has the right to receive variable advantage from the investment and with power of decision, can influence its proceeds from the investment.

The Consolidation is prepared in accordance with the acquisition price rule. When acquiring subsidiaries, assets and liabilities are measured at fair value at the acquisition date. If the purchase price is higher than the net asset after such an assessment, the difference is recognized as goodwill. The operating results of subsidiaries acquired or disposed during the year are included in the consolidated income statement from the effective date of acquisition or until the date of disposal, as applicable.

Among the objectives of the consolidated financial statements is to disclose only the Consolidation's external income, expenses, assets and liabilities, therefore transactions within it are eliminated in the preparation of the financial statements. If appropriate, adjustments are made to the subsidiaries financial statements to align them with the Consolidations accounting policies.

Risk management

The Consolidation's general policy in risk management is to manage interest rate and foreign currency risk. The Consolidation 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 Consolidation reflects the consideration that the Consolidation expects to receive due to the sale of goods and services to the customer. The Consolidation records revenues when the control of the sold goods or services is transferred to the customer. In general, the Consolidation'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 comes, e.g. from 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 apart from 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 technology and property division, operations division 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 at 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 Consolidation is for example advertising revenue.

Other subsidiaries

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

Lease income

Lease income from operating leases is recognized on a straight-line basis over the term of the lease. Costs directly related to leases and management of operating leases are added to the book value of the leased asset and are then expensed on a straight-line basis over the lease term. The Consolidation is not a party to financing leases as a lessor.

Notes

2. Summary of Significant Accounting Policies (continued)

Construction contracts

When the status of a contract can be reliably assessed, income and expenses are recognized based on the percentage of accrued costs in accordance with the provisions of the contract on the reporting date. Changes to the components of the contract, the claim for compensation and bonus payments are recognized to the extent that the amount can be estimated reliably and is likely to arrive.

When the status of a contract cannot be reliably estimated, revenue is recognized in proportion to the accrued costs that are likely to be recovered. The cost of the construction contract is recognized as an expense in the period incurred.

When the loss of a construction contract is likely, the expected loss is recognized immediately.

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 is recognized for the relevant period in accordance with the relevant principal and interest rate.

Borrowing costs arising directly from the acquisition, construction or production of assets that qualify for capitalization are capitalized as part of the asset up to the time when the asset is ready for use or sale. A qualifying asset is an asset that takes a considerable amount of time to get into a usable or viable condition.

Investment income from short-term investments related to the financing of capitalized assets is recognized as a deduction of capitalized capital costs.

All other financial expenses are recognized in the income statement during the period in which they are incurred.

Income tax

Income tax is calculated and recognized in the consolidated financial statements. Its calculation is based on pre-tax results, taking into account permanent discrepancies between taxable income and profit according to the annual accounts. The income tax rate is 20%. Expensed income tax consists of income tax payable and deferred income tax.

Income tax payable is an income tax that is scheduled to be paid next year due to taxable profits for the year as well as adjustments to income tax payable for previous years. Taxable profits may be other than accounting profits. Calculated income tax is based on the applicable tax rate at the reporting date.

Deferred income tax is due to the temporary difference between the balance sheet items in the tax settlement on the one hand and the annual accounts on the other, where the income tax base is based on other assumptions than its financial statements. Deferred income tax is not recognized for goodwill that is not tax deductible. Furthermore, deferred income tax is not recognized for investments in subsidiaries if it is considered that the Parent Company can control when the temporary difference is reversed, and it is not expected that the turnaround will

Deferred tax liabilities are assessed on the balance sheet date and are recognized to the extent that it is probable to use offset taxable profits in the future.

Deferred tax is recognized in the income statement, unless it relates to items of equity, then it is recognized among equity.

2. Summary of Significant Accounting Policies (continued)

Property, plant and equipment

Assets are listed among property, plant and equipment when the economic benefits associated with the asset are likely to benefit the Consolidation and the cost of the asset can be reliably estimated. Fixed assets are recognized using the cost method. Under the cost method, property, plant and equipment are recognized at original cost less accumulated amortization and impairment. The cost of property, plant and equipment consists of the purchase price and all direct costs of bringing the property into a viable state

Upon the merger of Flugfjarskipta ehf. and Isavia ohf. the properties of the aforementioned company were revalued as the market price of that company's real estate was considered to be significantly higher than the book value. The revalued price is based on the estimated sales price confirmed by the appraisers. The valuation change is recognized in a special revaluation account among equity and on income tax liability.

Depreciation is recognized systematically over the estimated useful life of the asset, taking into account the expected residual value. Estimated utilization time and depreciation methods are reassessed at the end of each accounting period.

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

Gains or losses arising from the sale of property, plant and equipment are the difference between the sale price and the book value of assets at the date of sale and are recognized in the income statement, profit from sales and other sales and other expenses. On the sale of revalued property, plant and equipment, the revaluation is recognized in retained earnings.

Intangible assets

Intangible assets are capitalized when it is probable that future economic benefits associated with the asset are likely to benefit the Consolidation and the cost of the asset can be reliably estimated. Among the intangible assets is software. These assets are recognized at cost less accumulated amortization and impairment losses. Depreciation is recognized systematically over the estimated useful life of the asset. Estimated useful lives and depreciation methods are reassessed at the end of each accounting period.

Research costs are expensed in the period for which they are incurred. Development costs are capitalized only if all the following conditions are met

- The Consolidation has the technical ability to complete the product development in a marketable state
- The intension to complete the intangible asset and use or sell
- The Consolidation demonstrates its potential to sell the product
- The Consolidation shows how the product will generate future revenue
- The Consolidation has sufficient technology and resources to complete development and sales
- Development expenditure can be measured reliably

Capitalization of development costs is only allowed when all the above conditions are met. Development costs that do not qualify are expensed in the period in which they accrue. After initial registration, development costs are measured at cost less accumulated depreciation and impairment.

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.

Leases

The Consolidation assesses whether a contract is or contains a lease, at inception of the contract. The Consolidation recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Consolidation recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Consolidation uses its incremental borrowing rate. The lease payments included in the measurement of the lease liability comprise fixed payments less any incentives, variable lease payments that depend on an index or rate, expected residual guarantees and the excercise price of purchase options if the Consolidation expects to excercise the option.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Consolidation remeasures the lease liability if the lease term has changed, when lease payments changes in an index or rate or when a lease contract is modified and the modification is not accounted for as a seperate lease.

Notes

2. Summary of Significant Accounting Policies (continued)

Leases (continued)

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Consolidation expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Consolidation has used this practical expedient.

Impairment

At the end of each reporting period, the Consolidation 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 an indication of impairment occurs, the recoverable amount of the asset is assessed in order to determine how extensive such impairment is.

The recoverable value is either the net realizable value or the value in use of an asset, whichever is higher. For the purpose of estimating the value in use, expected cash flow has been recognized at present value using the interest rate relevant to the financing of such an asset, taking into account tax. When the recoverable value of individual assets cannot be assessed, the Consolidation assesses the recoverable value of the cash-generating unit to which the asset belongs.

If the recoverable value of an asset or cash-generating unit is lower than the carrying amount, the carrying amount of the asset is reduced to its recoverable value. Impairment of cash-generating units is recognized initially as a decrease in related goodwill, and then at a proportional decrease in the carrying amount of other assets of the entity. Impairment losses are recognized in the income statement.

If previously recognized impairment no longer applies, the carrying amount of the asset may rise again, but not in excess of the original cost. Impairment of goodwill is not reversible.

Inventories

Inventories are stated at the lower of cost or net realizable value, after taking obsolete and defective goods into consideration. Net realizable 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 recognized when the Consolidation has a present obligation as a result of a past event, and it is probable that the Consolidation 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 transaction costs are expensed to increase their value at initial recognition in accounting. IFRS 9 divides financial assets into two categories, on the one hand, financial assets are recorded at amortized cost and, on the other hand, financial assets at fair value. The Consolidation records all its financial assets at amortized cost.

Financial assets at amortized cost

Financial assets that are due for maturity and contractual payments on set dates consists only of installments of principal 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 allowance. 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 Consolidation financial assets valued at amortized cost are bonds, accounts receivable, other short-term receivables and cash.

Notes

2. Summary of Significant Accounting Policies (continued)

Financial assets (continued)

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 recognized based on the effective interest rate for all financial instruments other than those defined as financial assets at fair value through profit or loss

Investments held to maturity

Financial assets are classified as financial assets intended to be held to maturity when the Consolidation 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 recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Impairment model IFRS 9 is based on the expected loan loss, which is a change from the previous standard IAS 39, which only required that loan losses be recognized as a result of past events. The Consolidation’s financial assets that fall within the scope of the impairment model are debt securities, trade receivables, other short-term receivables (apart from capital gains tax, VAT receivable and pre-payments) and cash.

When assessing expected loan losses for accounts receivable, the Consolidation uses a simplified approach. This approach requires that the Consolidation assess allowance for doubtful accounts that is equal to the expected loan losses during the life of the receivables. The Consolidation's accounts receivable is divided into categories according to the number of days that they are due. In assessing a fixed allowance for doubtful accounts ratio for each category, the historical loss history of the Consolidation is taken into account, adjusted for future economic development expectations if needed. The Consolidation conducts the evaluation down to individual customers or group of customers if the experience shows a significant difference in the loss pattern for certain customers or groups of customers. In some cases, this may result in a deviation from the estimated percentage to individual customer groups. See the detailed discussion of expected loan losses for accounts receivable in note 15.

At each reporting date it is examined whether there is objective evidence of impairment of financial assets. A financial asset is impaired if there is objective evidence that one or more events that have occurred will affect the expected future cash flow of the asset and that impairment can be reliably estimated. The Consolidation recognizes specific allowans for doubtful accounts for financial assets where there is objective evidence of impairment.

Changes in the impairment contribution of a financial asset to a provision are recognized in the income statement during the period in which the measurement is carried out. Impairment is reversed if the reversal can be objectively linked to an event that occurred after the impairment was recognized.

Derecognition of financial assets

The Consolidation 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.

2. Summary of Significant Accounting Policies (continued)

Financial liabilities and equity instruments

Financial liabilities

Financial liabilities are classified on the one hand as financial liabilities at fair value through profit or loss and on the other hand as other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are recognized at fair value in the income statement when they are classified as financial liabilities for sale or as financial liabilities at fair value through profit or loss.

Financial liabilities, other than financial liabilities for sale, may be defined as financial liabilities at fair value through profit or loss at initial recognition if they meet IFRS9 requirements for such registration.

Other financial liabilities

Other financial liabilities, including liabilities to financial institutions, are initially measured at fair value less transaction costs. For subsequent assessments, they are recognized at amortized cost based on effective interest.

Derecognition of financial liabilities

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

3. Critical accounting judgements and key sources of estimation uncertainty

In preparing of the Consolidated Financial Statements, managers must, in accordance with International Financial Reporting Standards, make decisions, assess and draw conclusions that affect assets and liabilities on accounting date, disclosure information and income and expenses. The assessment and conclusions are based on experience and various other factors that are considered relevant and form the basis of the decisions made on the book value of assets and liabilities that are not otherwise available. Actual value may differ from management's estimates. Accounting estimate consists of an assessment of the life of assets and allowance for doubtful accounts of the trade receivables and inventories, see note no. 9, 10, 14 and 15.

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

4. Revenues

The consolidated composition of revenues, is specified as follows	2019	2018
Revenue from sales	12.968.971	13.216.029
Revenue from services	20.801.976	23.428.408
Revenue from long term assets	4.683.021	5.143.918
	38.453.968	41.788.354

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 consolidation's revenues can be found in Note 2.

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5. Salaries and related expenses

	2019	2018
Salaries	13.991.002	14.015.826
Contribution to defined contribution plans	2.173.623	2.166.032
Payroll taxes	1.046.855	1.099.324
Salary-related expenses	238.530	234.250
Additional contribution to pension fund and changes in vacation obligation	318.157	403.849
Capitalized employment expenses	(376.632)	(378.803)
Contractor payments	718	1.688
Other employee expenses	646.160	745.500
	18.038.411	18.287.666
Average number of employees	1.360	1.430

Total salaries and pension contribution to the CEO of Isavia ohf. in 2019 amounted to ISK 39,2 million, compared to ISK 38,0 million in 2018. The former CEO left his position in April 2019, but the current CEO joined in June 2019. In 2019, total salary expense for the former CEO was ISK 64,3 million, which is total salaries for employment, retirement time and accumulated vacation obliagtion. Total salaries and contributions in a pension fund to the consolidation's three boards, two managing directors of subsidiaries, the parent Consolidation's board of directors and expensed salary costs for the retirement of three managing directors of the parent Consolidation in 2019 amounted to ISK 370,9 million, compared to ISK 331 million in the previous year.

6. Fees to auditors

	2019		2018	
	Audit	Other service	Audit	Other service
Deloitte ehf.	23.855	47.512	29.134	25.525
The Icelandic National Audit office	8.312	0	0	0
	32.167	47.512	29.134	25.525

Other services include the cost of accounting, tax service and assistance on tax return. Included in other service for the year 2019 are ISK 43,0 million (year 2018: ISK 19,3 million) arising from projects that are unrelated to accounting.

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7. Financial income and expenses

Financial income

	2019	2018
Interest on bank deposits	146.422	78.303
Interest revenue on investments held to maturity	11.414	17.040
Other interest revenue	116.727	142.268
	274.563	237.611

Financial expenses

	2019	2018
Interest expense and indexation	(1.048.417)	(1.090.648)
Debt collection fee	(74.129)	(72.980)
Interest on late payments	(2.215)	(9.271)
	(1.124.760)	(1.172.899)

Net exchange rate differences

	2019	2018
Net exchange rate differences	(560.192)	(1.604.456)

8. Income tax

Income tax has been calculated and recorded in the Financial Statements; the amount charged in the Income Statement is ISK 296,9 million. Income tax payable in the year 2020 is ISK 380,6 million. In year 2018 income tax charged in the Income Statement was ISK 1.035,7 million and income tax payable in year 2019 was ISK 953,7 million.

The effective tax rate is specified as follows:

	2019		2018	
	Amount	%	Amount	%
Profit before taxes	1.495.766		5.297.352	
Tax rate	299.153	20,0%	1.059.470	20,0%
Non-taxable revenues	0	0,0%	(22.500)	(0,4%)
Joint taxation	0	0,0%	1	0,0%
Other changes	(2.272)	(0,2%)	(1.318)	(0,0%)
Income tax according to Income statement	296.882	19,8%	1.035.653	19,6%

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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 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 1 January 2019	35.665.140	18.510.762	3.976.041	15.732.489	73.884.432
Additions	1.751.582	661.642	79.869	1.329.637	3.822.729
Disposals	0	(35.593)	(274.394)	(175.663)	(485.650)
Sold	0	0	0	(29.818)	(29.818)
Balance at 31 December 2019	37.416.722	19.136.810	3.781.516	16.856.645	77.191.693
Accumulated depreciation					
Balance at 1 January 2018	7.022.519	2.051.906	2.450.355	3.847.347	15.372.127
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 1 January 2019	7.949.850	2.472.383	1.603.888	4.662.315	16.688.437
Charge for the year	968.453	786.783	337.282	1.363.187	3.455.706
Disposals	0	(35.593)	(274.394)	(175.663)	(485.650)
Sold	0	0	0	(16.395)	(16.395)
Balance at 31 December 2019	8.918.303	3.223.573	1.666.778	5.833.445	19.642.097
Book value					
Book value at beginning of year	27.715.290	16.038.378	2.372.152	11.070.174	57.195.995
Book value at year-end	28.498.419	15.913.237	2.114.738	11.023.200	57.549.596

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:

	31.12.2019	31.12.2018
Revalued book value	106.711	109.707
Impact of the special revaluation	(51.654)	(53.268)
Book value without impact of revaluation	55.057	56.439

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

	2019		2018	
Consolidation	Assessment value	Insurance value	Assessment value	Insurance value
Buildings and sites	28.972.641	56.038.659	25.899.015	55.900.869
Machinery and equipment, asset insurances		18.428.384		12.133.955
Other insurances		750.822		43.440
Halt insurance		20.768.660		20.562.434

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10. Intangible assets and amortization

Consolidation	Usage agreement on facilities	Usage agreement on runways	Software and development cost	Total
Cost				
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 1 January 2019	477.035	5.706.000	1.181.224	7.364.259
Additions	0	0	123.853	123.853
Disposals	0	0	(90.565)	(90.565)
Balance at 31 December 2019	477.035	5.706.000	1.214.512	7.397.547
Amortization				
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 1 January 2019	159.055	1.902.513	337.516	2.399.084
Charge for the year	15.899	190.174	146.381	352.455
Disposals	0	0	(90.565)	(90.565)
Balance at 31 December 2019	174.954	2.092.688	393.333	2.660.974
Book value				
Book value at beginning of year	317.980	3.803.487	843.708	4.965.176
Book value at year-end	302.081	3.613.312	821.180	4.736.573

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 Consolidation'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 available for sale and already in use by clients. The Consolidation 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 Defense Agency, now the Icelandic Coast Guard, signed on April 22nd, 2009, the Consolidation 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 Consolidation 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 recognized proportionately over the lease term. .

11. Leases

Right-of-use assets	Property	Other	Total
Recognised on initial application, 1 January 2019	156.959	24.951	181.910
Adjustments for indexed leases	4.112	0	4.112
New or renewed leases	47.159	(4.839)	42.320
Depreciation	(56.937)	(4.183)	(61.120)
Balance at 31 December 2019	151.293	15.929	167.222

Amounts recognised in income statement	2019
Depreciation expense from right-of-use assets	61.120
Interest expense on lease liabilities	7.846
Total amount recognised in income statement	68.966

Lease liabilities

Maturity analysis, undiscounted lease payments	31.12.2019
Not later than 1 year	65.156
Later than 1 year and not later than 5 years	88.398
Later than 5 year	75.644
	229.199

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12. 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			
Domavia ehf., Reykjavik	100,00%	500	Real estate business
Duty Free Store ehf., Keflavik Airport	100,00%	50.000	Retail and commerce
Isavia ANS ehf., Reykjavik Airport	100,00%	500	Domestic airport operations
Isavia Innanlands ehf., Reykjavik Airport	100,00%	500	Air traffic control services
Suluk ApS, Greenland	100,00%	1.999	Services of air traffic controllers
Tern Systems ehf., Kopavogur	100,00%	80.000	Software and consulting

13. Bonds and other long term assets

	31.12.2019	31.12.2018
Bond loan, weighted average of interest rate 5,48%.	154.649	190.481
Current maturities	(38.062)	(37.514)
	116.587	152.967

Bonds and long term assets installments are specified as follows:

	31.12.2019	31.12.2018
Year 2019		37.514
Year 2020	38.062	37.852
Year 2021	38.425	38.205
Year 2022	38.804	38.575
Year 2023	9.200	8.961
Year 2024	9.614	9.364
Installments later	20.545	20.011
	154.649	190.481

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

14. Inventories

	31.12.2019	31.12.2018
Goods for resale	584.697	623.666
Goods in transit	17.551	63.731
Allowance for old and obsolete inventory	(12.425)	(12.636)
	589.823	674.761

Changes in allowance for old and obsolete inventory:

At the beginning of the year	(12.636)	(12.097)
Reversed allowance for old and obsolete inventory	(21.247)	(32.887)
Inventories written off	21.458	32.348
At year-end	(12.425)	(12.636)
Insurance value of inventories	725.000	699.387

No inventories have been pledged at year-end.

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

15. Other financial assets

Accounts receivables

	31.12.2019	31.12.2018
Domestic receivables	4.054.592	5.033.487
Foreign receivables	406.050	833.541
Allowances for doubtful accounts	(2.151.079)	(250.684)
Receivables Joint Finance contract	0	408
	2.309.563	5.616.752

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15. Other financial assets (continued)

Aging and allowance for doubtful accounts

Changes in the allowance for doubtful accounts:

	31.12.2019	31.12.2018
At the beginning of the year	(250.684)	(132.026)
Impairment loss recognized on receivables	(2.020.392)	(122.947)
Amounts written off as uncollectable	119.997	4.289
At year-end	(2.151.079)	(250.684)

Allowance has been made for doubtful accounts. This allowance is based on management´s estimates, previous years´ experience and economic outlook at the reporting date.

Value of allowance for doubtful accounts in the year end 2019 in accordance with IFRS 9 is following:

The Consolidation 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 Consolidation's management that the carrying amount of accounts receivables and other receivables reflects their fair value.

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

On March 28, Isavia provisioned authority to prevent departure on aircraft operated by Wow air based on unpaid accumulated fees due to the airline operation at Keflavik Airport. The cessation was used in accordance to 1st paragraph of Article 136 of the Icelandic Aviation Act No 60/1998. The authority to prevent departure was applied for the airline for all unpaid accrued fees and used in accordance with Article 136, previous judgements and the application of the provision in previous years. The owner of the aircraft filed a lawsuit at the Reykjanes District Court trying to overturn the aircraft cessation which in the end the district court ruled and ordered that the cessation permit should be lifted after the aircraft owner had paid the accumulated fees belonging to the particular aircraft. Isavia was not given the opportunity to appeal the ruling to a higher court level for review which, in the Consolidation’s opinion, was significantly objectionable considering the interests that existed and the higher judicial authority had previously ruled in the Consolidation´s favor. Although that ruling was unmarked for legal reasons, the opinion of a higher judicial authority remains. Due to the fact that the equivalent of a collateral for payment of accumulated fees was lost as a result of the ruling of the Reykjanes District Court, it was considered appropriate to write-down the claim in the amount of ISK 2.047,7 million. That write-down, however, does not change the Consolidation's view that the decision of the District Court on the refusal to postpone the legal effect in that ruling is significantly objectionable. Isavia started a Court proceeding against the owner of the aircraft and the State Treasury for damages in the implementation of legal execution of the aircraft.

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

	31.12.2019			
	Expected loss	Gross amount	Allowance	Book value
Receivables not yet due	1%	1.910.546	12.135	1.898.411
1-90 days	4%	293.309	10.706	282.603
91-180 days	24%	62.185	15.193	46.992
181-270 days	86%	100.697	86.306	14.391
> 271 days	97%	2.093.906	2.026.739	67.167
Total		4.460.642	2.151.079	2.309.563

	31.12.2018			
	Expected loss	Gross amount	Allowance	Book value
Receivables not yet due	1%	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

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15. Other financial assets (continued)

Other receivables

	31.12.2019	31.12.2018
Value added tax of previous years	5.198.379	5.198.379
Value added tax	203.237	16.092
Prepaid expenses	122.855	87.424
Capital income tax	29.868	18.312
Prepaid salaries	45.189	51.355
Other receivables	369.368	382.827
	5.968.896	5.754.389

The Consolidation's claim for value added tax of previous years 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 Consolidation serves international flights at Keflavik Airport, according to article 12 in the Act on Value Added Tax, and the Consolidation 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 Consolidation on the other hand believes that this important assumption was in place when the Consolidation was established. The Consolidation has made its argument but The Directorate of Internal Revenue has not ruled on the matter.

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

Changes have been made to the Value Added Tax Act that eliminates all doubt about the Consolidation's authorization to apply the methodology that has been applied since the establishment of the Consolidation. This change came into force on January 1st, 2019. Different interpretations of the Consolidation and the Director 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.

Cash and cash equivalents

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

	31.12.2019	31.12.2018
Bank balances in ISK	3.241.164	1.624.126
Bank balances in foreign currencies	3.401.145	2.803.972
Redemption accounts	2.518.840	1.001.250
Cash in ISK	5.492	6.779
	9.166.641	5.436.127

16. 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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Notes

17. Long term borrowings

	Loans from credit institutions	
	31.12.2019	31.12.2018
Liabilites in EUR	30.399.800	27.851.711
Liabilites in USD	0	2.892.813
Liabilites in ISK	5.651.098	6.016.029
	36.050.897	36.760.553
Current portion of long term liabilities	(3.339.425)	(3.133.778)
Non-current liabilities at year-end	32.711.473	33.626.775

Change in liabilities for the year is following:

Liabilities at beginning of the year	36.760.553	33.738.894
New long-term borrowings in the year	0	9.824.100
Installments for the year	(1.325.161)	(8.514.747)
Exchange rate difference and indexation	615.506	1.712.306
Liabilities at the end of the year	36.050.897	36.760.553

Installments of non-current liabilities are specified as follows:

	Loans from credit institutions	
	31.12.2019	31.12.2018
Installments in 2020 / 2019	3.339.425	3.133.778
Installments in 2021 / 2020	5.171.750	5.068.473
Installments in 2022 / 2021	1.432.636	1.494.920
Installments in 2023 / 2022	1.698.372	1.408.541
Installments in 2024 / 2023	7.868.610	1.669.171
Installments later	16.540.105	23.985.670
	36.050.897	36.760.553

Loans amounting to ISK 35.019,7 million are subject to financial covenants regarding equity ratio. Thereof loans amounting to ISK 17.866 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.

18. Deferred tax liability

	31.12.2019	31.12.2018
Balance at beginning of the year	2.138.638	2.056.586
Effects from joint taxation	(1)	0
Calculated income tax for the year	296.882	1.035.653
Income tax payable for the next year	(380.618)	(953.694)
Translation exchange difference	5	93
Balance at the end of the year	2.054.905	2.138.638

Deferred tax balances consist of the following account balances

	31.12.2019	31.12.2018
Property, plant and equipment	2.625.169	2.400.675
Current assets	(396.095)	(559)
Other items	(171.399)	(256.442)
Exchange differences	(2.770)	(5.036)
	2.054.905	2.138.638

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Notes

19. Other financial liabilities

Accounts payable

	31.12.2019	31.12.2018
Domestic accounts payable	1.151.839	1.508.057
Foreign accounts payable	443.342	350.523
Accounts payable - Joint finance agreement	740.898	0
	2.336.079	1.858.581

Current maturities of long-term liabilities

	31.12.2019	31.12.2018
Loans from credit institutions	3.339.425	3.133.778

Other current liabilities

	31.12.2019	31.12.2018
Value added tax, payable	34.786	30.388
Deferred revenue	18.757	13.477
Accrued additional contribution to pension fund	356.284	295.460
Salaries and related expenses payable	996.063	696.103
Accrued holiday commitment	1.321.002	1.304.353
Accrued interest, payable	133.429	159.662
Other liabilities	133.182	92.097
Deferred revenue	172.590	226.223
Unfinished construction contract	18.371	37.004
	3.184.464	2.854.767

20. Financial risk

Financial instruments

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

Financial assets	31.12.2019	31.12.2018
Cash and cash equivalents	9.166.641	5.436.127
Financial assets that are intended to hold to maturity	154.649	190.481
Loans and receivables	8.110.415	11.232.362

Financial liabilities	31.12.2019	31.12.2018
Other financial liabilities	41.952.059	42.427.594

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 Consolidation has adopted a comprehensive risk policy and there is active risk management which has the role of assessing and managing the risk factors that the Consolidation has. The risks that are under active control are market risk, counterparty risk and liquidity risk . In addition, other risks related to operations, reputation, management and other factors have been mapped and assessed on the basis of severity on the one hand and probably on the other. The Risk Committee of the Consolidation regularly meets with issues related to risk management.

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20. 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

The analysis below shows the effect of a 50 and 100 percentage point increase on net interest-bearing assets and liabilities on earnings and equity at the balance sheet date. The sensitivity analysis covers the interest-bearing assets and liabilities that carry variable interest rates and assumes that all other variables other than those considered here are fixed. The sensitivity analysis takes into account tax effects and therefore reflects the effects that come into the 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:

	31.12.2019		31.12.2018	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on profit or loss and other equity	(57.550)	(115.099)	(88.085)	(176.169)

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

	Year-end rate		Average rate	
Currency	2019	2018	2019	2018
EUR	135,83	133,23	137,30	127,73
GBP	159,42	148,33	156,49	144,35
JPY	1,116	1,057	1,126	0,980
CHF	125,14	118,23	123,46	110,72
DKK	18,18	17,84	18,39	17,14
NOK	13,77	13,40	13,94	13,31
SEK	12,99	13,02	12,97	12,46
USD	121,10	116,33	122,65	108,38
CAD	92,94	85,47	92,46	83,61
HUF	0,41	0,40	0,41	0,40

Foreign currency risk 31.12.2019

	Assets	Liabilities	Net balance
EUR	3.517.539	30.724.727	(27.207.188)
GBP	173.596	13.445	160.151
JPY	691	0	691
CHF	2.686	20.054	(17.368)
DKK	70.698	30.418	40.280
NOK	346	0	346
SEK	2.056	24.811	(22.755)
USD	63.802	22.914	40.888
CAD	125	0	125
HUF	5.847	2.974	2.872

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20. Financial risk (continued)

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

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 denominated 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 and trade receivables. 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	**31.12.2019**		**31.12.2018**	
	5%	10%	5%	10%
EUR	(1.088.288)	(2.176.575)	(1.019.368)	(2.038.736)
GBP	6.406	12.812	26.687	53.373
JPY	28	55	67	135
CHF	(695)	(1.389)	(272)	(545)
DKK	1.611	3.222	4.897	9.794
NOK	14	28	43	86
SED	(910)	(1.820)	89	179
USD	1.636	3.271	(111.533)	(223.066)
CAD	5	10	101	201
HUF	115	230	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 Consolidation. The Consolidation actively monitors the changes to its credit risk. A more detailed description of the Consolidation's assessment of expected loan losses due to financial assets can be found in Notes 2 (accounting policies for impairment of financial assets) and 15 (allowance for doubtful accounts). The Consolidation 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.

	31.12.2019	31.12.2018
Bonds and other long term assets	154.649	190.481
Accounts receivables	2.289.892	5.616.752
Other receivables	5.820.523	5.615.610
Cash and cash equivalents	9.166.641	5.436.127
	17.431.705	16.858.970

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

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20. Financial risk (continued)

Liquidity risk management

Liquidity risk is the risk that the Consolidation has difficulties to meet its financial commitments in the near future. On a regular basis the Consolidation 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 31.12.2019				
Non-interest bearing	5.901.162	0	0	5.901.162
Floating interest rates	3.005.399	14.275.563	6.402.579	23.683.541
Fixed interest rates	334.026	1.895.805	10.137.526	12.367.356
	9.240.586	16.171.368	16.540.105	41.952.059
Assets 31.12.2019				
Non-interest bearing	8.135.557	0	0	8.135.557
Floating interest rates	9.179.561	96.042	20.545	9.296.147
	17.315.118	96.042	20.545	17.431.705
Net balance 31.12.2019	8.074.531	(16.075.326)	(16.519.560)	(24.520.354)

	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)

21. Other issues

Revenues of International Air Navigation Services

On the basis of a service agreement with the Ministry of the Interior, the Consolidation 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.

In addition, there are several court cases that the company believes consites without merit.

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22. Other obligations

Operating license

Isavia ohf. and its subsidiaries have an indefinite operating license for the operation of air navigation, airports and landing places and are subject to conditions resulting from them as they are at any given time.

The Consolidation is obliged to respect international commitments made by the Government in Iceland on the basis of international agreements relating to the Consolidation's operations.

Service agreements

Isavia ohf. has service agreements with the Ministry of Transport – and Municipal Affairs for five years from 2019 on the provision of air navigation and airport services, as well as a contract for construction at domestic airports. Payment for domestic services and construction is determined according to the contract for one year at a time. On the basis of the service agreement, the company provides air navigation services in international airspace, domestic airspace and the operation of airports, as well as the maintenance and development of domestic airports in accordance with government decisions at any given time.

Insurance

The Company insures air navigation and airport operations (in accordance with the terms of the insurance) for up to USD 1.5 billion. In addition, the Company's aircraft and equipment are insured.

The directors and officers liability is ISK 300 million.

The Company purchases insurance for employees in accordance with the terms of the collective bargaining agreement, except for the air traffic controller's license which the Company runs at its own risk.

23. Events after the reporting period

There are no subsequent to be disclosed.

24. Related parties

Related parties are those parties which have direct or indirect influence of the Company or have the power to control its financial and operating policies. The Consolidation’s related parties include: Key executives, close family members of key executives, and companies in which key executives or close family members control or have significant influence. Parent companies and companies where the parent group controls or has a significant influence are also considered related parties. Isavia ohf. is a government owned private limited Consolidation 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.

25. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on March 10, 2020.

26. Consolidated ratios

From Statement of Comprehensive Income:	2019	2018
Profitability		
Earnings before interests, taxes, depreciation and amortisation (EBITDA)	6.775.436	11.298.021
a) Contribution margin on operation	17,62%	27,04%
b) Profit margin on operating revenue	3,12%	10,20%
c) Earning per share (EPS)	0,21	0,76
d) Return on equity	3,34%	12,86%

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

From Balance sheet:	31.12.2019	31.12.2018
Activity ratios		
e) Investment in inventories	0,02	0,02
f) Rate of return on assets	0,48	0,55
g) Inventory turnover	10,13	10,71
h) Receivables turnover	9,70	8,14

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	1,88	1,91
j) Current ratio	1,94	1,99
k) Net Interest Bearing Debts/EBITDA	3,99	2,77

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

Coverage ratios		
l) Equity ratio	45,22%	44,18%
m) Internal value of shares	6,52	6,31

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

From Cash flow:	2019	2018
n) Net cash debt coverage	0,20	0,16
o) Quality of sales	7,53	1,68
p) Quality of net profit	3,71	1,12

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	2019	2018
Cost of goods sold/income from retail division	16,66%	15,65%
Salaries and related expenses/operating revenues	46,91%	43,76%
Administrative expenses/operating revenues	1,41%	1,30%
Other operating expenses/operating revenues	17,41%	11,97%
Depreciation and amortization/operating revenue	10,06%	8,56%
revenues	92,44%	81,25%

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27. Segment reporting

Segment information are disclosed on basis of organizational structure and internal management information. Segment are divided into three operational components, while the support divisions and subsidiaries are included in others. The majority of Air Navigation Division consists of service to air carriers on the basis of a Joint Finance Agreement. Domestic systems are the operation of airports and airport control towers for domestic flights. Keflavík Airport is the operation of Keflavík International Airport and control tower in Keflavík in addition to Leifur Eiríksson Air Terminal.

The performance of the Domestic airport is to a large extent based on a service agreement between the government and Isavia ohf. The performance in the segment report does not take into account Isavia' s investments in non-current assets that are used for the operation of Domestic airports. Since 2011, the accumulated operating profit before financial income and expenses has been ISK 107,2 million, while the estimated accumulated cost of Isavia for the commitment amounts to ISK 467,2 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 7.717,9 million (2018: about 8.149,2 million) which fall within the scope of IFRS 16 Leases. Other revenue specified above are within the scope of IFRS 15 Revenue from contracts with customers. A more detailed description of the nature of the income and the timing of the Consolidation's revenue can be found in note 2.

Segment information year 2019	Air-navigation	Domestic Airports	Keflavik Airport	Duty Free Store	Others	Eliminations	Consolidated
Revenue:							
External revenue	7.191.746	2.514.531	15.331.579	13.225.869	190.242		38.453.968
Inter-segment revenue	971.202	36.435	4.517.505		968.162	(6.493.304)	0
Total revenue	8.162.949	2.550.966	19.849.084	13.225.869	1.158.404	(6.493.304)	38.453.968
Income statement:							
Operating profit	444.249	(3.149)	2.333.290	390.285	(258.519)		2.906.155
Net financial income / (expenses)							(1.410.389)
Profit before taxes							1.495.766
Profit for the year							1.198.885
Balance sheet:							
Non-current assets	4.523.663	1.439.513	55.228.899	295.695	1.648.677	(566.470)	62.569.978
Other assets unallocated to segments							18.072.985
Total assets							80.642.963
Total liabilities							44.177.018
Other information:							
Capital additions	656.218	169.617	3.090.041	26.201	4.506		3.946.582
Depreciation and amortization	364.395	122.405	3.174.357	106.126	101.998		3.869.281

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27. Segment reporting (continued)

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
Income statement:							
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
Profit for the year							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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