Consolidated Financial Statements
2023

isavia

Isavia ohf.

Consolidated
Financial Statements

2023

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.
Flugstöð Leifs Eiríkssonar
235 Keflavíkurflugvöllur
id.no. 550210-0370

Isavia ohf.

Consolidated
Financial Statements

2023

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Statement by the Board of Directors and Managing Director

Isavia ohf. ("the consolidated company") is a state-owned limited company and operates on the basis of Act No. 2/1995 on limited companies. Its domicile is at Flugstöð Leifs Eiríkssonar at Keflavíkurflugvöllur but its venue is in Hafnarfjörður.

The purpose of the Isavia Group is aviation-related service activities and the operation and development of the country's airports. The Consolidated Financial Statements of Isavia ohf. includes, in addition to the parent company, the subsidiaries Isavia ANS ehf., Isavia Innanlandsflugvellir ehf. and Fríhöfnin ehf. Isavia ANS ehf. owns the subsidiaries Tern Systems ehf. and Suluk ApS and Tern Systems ehf. owns the subsidiary Tern Branch Hungary.

The consolidated accounts for 2023 are drawn up in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union as well as with supplementary requirements in the Annual Accounts Act. The Condensed Consolidated Financial Statements are presented in Icelandic krona (ISK), which is the functional currency of the Consolidation. All amounts are in ISK thousands, unless stated otherwise.

Operations in 2023

According to the statement of income and expenditure of Isavia ohf., total operating income in 2023 amounted to ISK 45.058 million (2022: ISK 36.505 million). The gain for the year amounted to ISK 2.102 million (2022: ISK 617 million loss). The positive exchange rate difference amounted to ISK 180 million (2022: negative ISK 868 million). Wages and other staff costs amounted to ISK 21.975 million (2022: ISK 19.395 million), and the average number of staff in 2023 was 1.348 (2022: 1.247). The gender ratio among the staff and managers is 65% men and 35% women.

On December 31st 2023, the total assets of the consolidated group amounted to ISK 112.101 million (2022: ISK 94.278 million). Equity at the end of 2023 amounted to ISK 44.064 million (2022: ISK 41.962 million) and the equity ratio for the consolidated group was 39,3% at the end of the year (2022: 44,5%).

Attention is called to the write-down of claims, including the write-down due to the collapse of WOW air in 2019. Reference is made to note 15 to the annual accounts regarding this issue.

The Board of Directors proposes that ISK 145 million of the profit the year will be allocated into the statutory reserve.The remaining profit of the year will be transferred to retain earnings and reference is made to the financial statements concerning the allocation of profit and other changes in the consolidated equity.

We draw the attention to the auditors opinion which has been changed, as now only the Auditor General signs the auditors opinion but before the financial statements were also approved by a Certified Public Accountant which is an employee at the Icelandic National Audit Office. This changes does not impact amounts or notes in this financial statement.

Share capital

At the end of the year, the share capital amounted to ISK 24.559 million (2022: ISK 24.559 million). There was no share capital increase in 2023 (2022: ISK 6.000 million). The government is the sole owner of Isavia ohf. at the end of year 2023 as at the end of the year 2022.

The Group's Board of Directors proposes that no dividend be paid to the company's owner for the 2023 operating year.

Governance

The Board of Isavia has set operating rules for itself that, inter alia, define the main tasks and areas of competence of the Board and the CEO. The rules are accessible on the website of the company. The rules state, inter alia, that the Board of the company shall adhere to the guidelines on corporate governance issued by the Icelandic Chamber of Commerce, SA Association of Icelandic Enterprise and Nasdaq OMX Iceland.

In accordance with the above guidelines on good governance and the Annual Accounts Act, the Board of Isavia has prepared a statement of governance that can be accessed on the company's website as well as in Appendix I to the annual accounts.

The Board of Isaiva consist of five board members, two women and three men. Therefore the gender ratio is in accordance with article 63 in laws number 2/1995 which require entities with more than 50 employees to ensure that gender ratio in the Board of Directors shall not be lower than 40% for either gender.

There are two committees operating, the audit committee and the emoluments committee. These committees are entrusted with the task of improving working practices in areas under the auspices of the Board, thus improving the efficacy of the work of Board members. For further information, see the website of the company and Appendix I.

Statement by the Board of Directors and Managing Director

Ownership policy

An owner's policy has been established for the subsidiaries of Isavia ohf., where an effort is made to clarify the responsibilities and roles of the owner, the company, the board and management in order to promote good governance and a clear strategy. In this way, the owner's policy is to ensure transparent, professional and efficient management of subsidiaries. Appendixes have also been made that state policies, rules and guidelines that are followed on a consolidated basis. These include human resources policy, sustainability policy, comprehensive risk management policy, code of conduct and handling of personal information, to name a few. The owner's policy together with an appendix is available on the company's website www.isavia.is.

Future prospects

Plans for the year 2024 assume continued growth in the income and performance of the Consolidation, along with increased activity in air traffic.

Recently, the board of the parent company decided to start work on outsourcing the operation of the duty free with the aim of finding ways to further increase Keflavík Airport's income from duty free operations. It is expected that the results of that work will be available in the last quarter of this year. There are interesting but challenging times ahead. The airline industry has always been sensitive to fluctuations in its external environment, and this is especially true now that climate change has become tangible with the associated uncertainty that comes with new rules and laws that can significantly increase costs or reduce the number of passengers.

The group's operations are extensive and complex in many respects. External changes, both foreseen and unforeseen, can increase the complexity of the operation and call for solutions that require imagination and energy from the companies' staff.

The board of directors and the CEO believes that the outlook for operations is strong that the company is well equipped to deal with the future increase in air traffic and passengers at the group's airports, together with the planned infrastructure development at Keflavík Airport in the coming years.

Social responsibility and non-financial information

Isavia´s operations fall under requiremens within Act on Annual Accounts regarding non-financial information. In additional, Isavia is required to comply requirements in Act no. 25/2023 on information on sustainability in the field of financial services and classification system for sustainable investments. The law requires certain companies, including Isavia, to disclose the income, investment costs and operating costs that the company has and bears from environmentally sustainable assets.

Isavia's activities fall under the provisions of the Annual Accounts Act on non-financial disclosure. The Isavia group has a sustainability policy that states that the company has sustainability as its guiding principle in everything it does. The strategy is supported by five-year action plans valid until the end of 2026.

Isavia has supported the UN Global Compact since 2016. With this, the company commits itself to ensure that policy and practices are in line with the ten main principles of the United Nations on human rights, labour issues, environmental issues and anti-corruption measures. The company supports the United Nations' Global Goals for Sustainable Development and works systematically towards them.

The annual and community relations report of Isavia is issued according to an international standard of the Global Reporting Initiative (GRI) along with special provisions applying to airports. The report explains the points of emphasis, objectives, key criteria and the progress of Isavia towards reaching increased sustainability. Further information from the report on non-financial information is to be found in Appendix II.

Isavia turns in an annual and community report to the UN Global Compact and Global Reporting Initiative. The report is turned in for the eigth time in this manner. Further information on the non-financial issues of the company can be accessed in the annual and community report at isavia.is/fyrirtaekid/um-isavia/utgefid-efni/arsskyrslur.

Statement by the Board of Directors and Managing Director

The statement of the Board and Managing Director

According to the best of knowledge of the Board of Directors and CEO of Isavia ohf., the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and, as applicable, additional requirements of the Act on Annual Accounts.

In the opinion of the Board and the Managing Director of Isavia ohf., the accounting rules of the company are appropriate and the consolidated accounts give a clear overview of the development and achievements of the company, its risk management and the main areas of uncertainty in its environment.

The Board and the Managing Director confirm, to the best of their knowledge, that the consolidated accounts give a true and fair view of the operating results of the consolidated group, its assets, liabilities and changes in liquidity in 2023.

The Board and Managing Director have reviewed and approved the consolidated annual accounts of the company for 2023 with their signatures and propose that the Annual General Meeting of the company approve the consolidated accounts.

Hafnarfjörður, March 13th 2024

Board of Directors

Kristján Þór Júlíusson
chairman of the Board

Hólmfríður Árnadóttir
board member

Hrólfur Ölvisson
board member

Jón Steindór Valdimarsson
board member

Nanna Margrét Gunnlaugsdóttir
board member

Managing Director

Sveinbjörn Indriðason

REPORT OF THE ICELANDIC NATIONAL AUDIT OFFICE

To the Board of Directors and Shareholders of Isavia ohf.

Opinion

The consolidated financial statements of Isavia ohf. for year ended December 31, 2023, are audited in accordance with Act no. 46/2016 on the Auditor General and the auditing of government accounts. The consolidated financialstatements 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.

It is the opinion of the Icelandic National Audit Office that the consolidated financial statements give a true and fair view of the financial position of Isavia ohf. as at December 31, 2023, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Basis for opinion

The audit was conducted in accordance with International Standards on Auditing. The responsibilities under those standards are further described in the Auditor General's Responsibilities for the Audit of the Consolidated Financial Statements section of the Icelandic National Audit Office's report. The Auditor General is independent of Isavia ohf. and operates in accordance with Act no. 46/2016 on the Auditor General and the auditing of government accounts and with the code of conduct of the International Organization of Supreme Audit Institutions (INTOSAI). The Auditor General's office is "The Icelandic National Audit Office" and the Auditor General is in charge of the office. The Auditor General believes that the audit evidence obtained is sufficient and appropriate to provide a basis for the opinion of the Icelandic National Audit Office on the consolidated financial statements.

Other information

It is the opinion of the Icelandic National Audit Office that the information given in the Statement by the Board of Directors and Managing Director complies with the provisions of paragraph 2 of article 104 of Act no. 3/2006 on the Icelandic Financial Statement.

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 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 the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and the CEO either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

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

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

The objectives of the Auditor General are that reasonable assurance is obtained about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes the Icelandic National Audit Office's opinion on the Consolidated Financial Statements. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with International Standards on Auditing 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 International Standards on Auditing, professional judgement was exercised, and professional scepticism maintained throughout the audit. The Icelandic National Audit Office also:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for its 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtains an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concludes on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If the audit concludes that a material uncertainty exists, the Icelandic National Audit Office is required to draw attention in the Icelandic National Audit Office's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. The conclusions of the Icelandic National Audit Office are based on the audit evidence obtained up to the date of its report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluates 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.
- Obtains 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. The Icelandic National Audit Office is responsible for the direction, supervision, and performance of the group audit. The Icelandic National Audit Office remains solely responsible for the audit opinion it gives.

The Icelandic National Audit Office communicates 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 the audit.

The Icelandic National Audit Office,
March 13th, 2024

Guðmundur Björgvin Helgason
Auditor General

Consolidated Income statement and other comprehensive income for the year 2023

	Notes	Consolidation 2023	2022
Operating revenues	4	45.057.963	36.505.496
Operating expenses			
Cost of goods sold		(7.569.152)	(5.949.952)
Salaries and related expenses	5	(21.975.018)	(19.394.692)
Administrative expenses		(742.560)	(586.764)
Other operating expenses		(6.625.806)	(5.409.159)
		(36.912.536)	(31.340.568)
Operating gain before depreciation		8.145.427	5.164.929
Depreciation and amortization	9,10,11	(4.138.991)	(3.931.571)
Operating gain		4.006.436	1.233.358
Financial income	7	1.184.228	386.894
Financial expenses	7	(2.665.589)	(1.561.140)
Net exchange rate differences	7	179.716	(867.962)
Gain (loss) before taxes		2.704.792	(808.850)
Income tax	8	(602.863)	191.477
Gain (loss) and other comprehensive income for the year		2.101.928	(617.373)

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Consolidated Statements of Financial Position December 31st 2023

Assets		**Consolidation**	
	Notes	**31.12.2023**	**31.12.2022**
Non-current assets			
Property, plant and equipment	9	84.111.674	71.304.316
Intangible assets	10	3.787.878	4.034.412
Right of use asset	11	277.088	289.041
Shares in other companies		5.000	5.000
Bonds and other long term receivables	13	1.002.225	1.499.630
Deferred tax asset	18	771.731	1.370.781
		89.955.597	78.503.180
Current assets			
Inventories	14	722.765	581.817
Accounts receivables	15	3.417.784	3.413.079
Current maturities of long-term receivables	13	500.269	498.865
Other receivables	15	1.990.323	1.785.732
Cash and cash equivalents	15	15.513.769	9.494.864
		22.144.910	15.774.357
Total assets		112.100.506	94.277.537
Equity and liabilities			
Equity			
Share capital	16	24.559.063	24.559.063
Statutory reserves		2.629.177	2.483.798
Revaluation reserves		37.065	38.389
Retained earnings		16.838.913	14.880.906
Total equity		44.064.218	41.962.156
Non-current liabilities			
Loans from credit institutions	17	55.928.043	42.372.010
Lease agreements	11	162.014	194.284
		56.090.056	42.566.294
Current liabilities			
Accounts payable	19	6.391.894	4.705.041
Current maturities of loans from credit institutions	17	1.232.193	1.758.655
Current maturities of lease agreements	11	128.608	108.594
Current tax liabilities	8	2.821	749
Other current liabilities	19	4.190.716	3.176.049
		11.946.232	9.749.087
Liabilities		68.036.288	52.315.381
Total equity and liabilities		112.100.506	94.277.537

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Consolidated Statement of Changes in Equity 2023

	Share Capital	Statutory reserves	Revaluation reserves	Retained earnings	Total Equity
Opening balance at January 1st 2022	18.559.063	2.483.798	39.712	15.496.253	36.578.827
New share capital	6.000.000	0	0	0	6.000.000
Depreciation of revaluation	0	0	(1.324)	1.324	0
Translation differences	0	0	0	702	702
Comprehensive income	0	0	0	(617.373)	(617.373)
Balance at December 31st 2022	24.559.063	2.483.798	38.389	14.880.906	41.962.156
Opening balance at January 1st 2023	24.559.063	2.483.798	38.389	14.880.906	41.962.156
Allocation to the statutory reserve	0	145.379	0	(145.379)	0
Depreciation of revaluation	0	0	(1.324)	1.324	0
Translation difference	0	0	0	133	133
Comprehensive income	0	0	0	2.101.928	2.101.928
Balance at December 31st 2023	24.559.063	2.629.177	37.065	16.838.913	44.064.218

No dividends were paid to shareholders for the year. Share capital has been fully paid. See note 16 for further information.

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Consolidated Statement of Cash Flows 2023

	Notes	Consolidation 2023	2022
Cash flows from operating activities			
Operating gain (loss)		4.006.436	1.233.358
Depreciation and amortization	9,10,11	4.138.991	3.931.571
Accounting provision of current assets	14,15	36.010	19.007
Gain on disposal of assets		(2.571)	(3.973)
Operating cash flow before changes in operating assets and liabilities		8.178.866	5.179.963
Changes in inventories		(144.274)	(173.200)
Changes in operating assets		105.263	(631.154)
Changes in operating liabilities		3.307.846	1.946.719
Cash generated from operations		11.447.701	6.322.328
Interest income received		1.188.567	382.591
Interest expenses paid		(2.134.206)	(1.608.479)
Income taxes paid		0	(346)
Net cash generated from operating activities		10.502.062	5.096.094
Investing activities			
Acquisition of property, plant and equipment	9	(16.502.344)	(15.087.512)
Sale of property, plant and equipment		8.336	14.809
Acquisition of intangible assets	10	(82.702)	(98.351)
Acquisition of shares in other companies		0	(5.000)
Instalments on bonds	13	13.475	42.270
Long term claim Joint Finance contract, change	13	487.950	487.950
Investing activities		(16.075.285)	(14.645.832)
Financing activities			
New long-term borrowing	17	34.182.500	0
Repayment of borrowings	17	(21.246.270)	(1.365.184)
Instalments of leases	11	(118.920)	(94.506)
Current liabilities, finance of construction plan, change	19	(1.408.280)	(269.195)
New share capital	16	0	6.000.000
Financing activities		11.409.030	4.271.116
Net change in cash and cash equivalents		5.835.807	(5.278.623)
Cash and cash equivalents at the beginning of the year		9.494.864	14.682.766
Effect of foreign exchange rates		183.098	90.721
Cash and cash equivalents at the end of the year	15	15.513.769	9.494.864
Financing activities not affecting cash flows			
New long-term borrowing	17	0	14.136.409
Payment of long-term loans with new long-term loans	17	0	(14.136.409)
		0	0

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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 is at Flugstöð Leifs Eiríkssonar at Keflavíkurflugvöllur but its venue is in Hafnarfjörður.

Isavia, along with its subsidiaries, operates and maintains all airports in Iceland, and it also operates air traffic control in the Icelandic aviation area.

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 Innanlandsflugvellir ehf., Fríhöfnin ehf., Tern Systems ehf., Tern Branch Hungary and Suluk ApS in Greenland.

2. Basis of accounting

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 2023, new and revised and additional requirements in the Annual Accounts Act. The Consolidated Financial Statements are prepared on the basis of cost, except certain fixed assets are valued according to the revaluation method. The Consolidated Financial Statements are presented in Icelandic krona (ISK), which is the functional currency of the Company. All amounts are in ISK thousands, unless stated otherwise.

No new accounting standards took place in year 2023. The Consolidation implemented few changes in older accounting standards, but those changes does not have significant impact on the Consolidations financial statements.

3. Use of estimated and judgements

The preparation of Consolidated Financial Statements in accordance with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, 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. Operating revenues

The consolidated composition of revenues, is specified as follows	2023	2022
Revenue from sales	14.590.032	12.246.723
Revenue from services	22.368.023	17.950.760
Revenue from contracts	2.436.000	2.015.200
Revenue from long-term assets	5.663.908	4.292.813
	45.057.963	36.505.496

Revenue from long term assets consist of revenues of real estates, land and equipment. Within revenues from long term assets are rental revenues that fall partly under IFRS 16 Leases. Other revenues above are within IFRS 15 Revenues from contracts with customers. Further description of nature of revenues and timing of the consolidation's revenues can be found in Note 27.

Revenue from the contracts is due to an agreement with the Ministry of Infrastructure for the operation of airports and air navigation services at domestic airports. Revenue in 2023 amounted to ISK 2.436 million. In 2022 the revenue amounted ISK 2.015 million.

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Notes

5. Salaries and related expenses

	2023	2022
Salaries	17.558.212	15.219.117
Contribution to defined contribution plans	2.653.172	2.345.826
Social security contribution	1.267.712	1.102.900
Other salary-related expenses	325.221	280.457
Additional contribution to pension fund and changes in vacation obligation	373.960	379.303
Capitalized employment expenses	(1.094.303)	(770.617)
Other employee expenses	891.044	837.708
	21.975.018	19.394.692
Average number of employees	1.348	1.247

Total salaries and pension fund contribution for the CEO of Isavia ohf. for the year 2023 amounted to ISK 55 million, compared to ISK 55 million in 2022. In 2023, total payments and the pension fund contribution to the four Directors of the consolidated group, the Directors of subsidiaries and Directors of the parent company amounted to ISK 349 million, compared to ISK 339 million the year before.

6. Fees to auditors

	2023		2022	
	Audit	Other service	Audit	Other service
The Icelandic National Audit office	35.867	0	43.013	0
	35.867	0	43.013	0

Other services include the cost of accounting, tax service and assistance on tax return. In year 2022 and 2023, this service was purchased by a third party that is independent of the company's auditor.

7. Financial income and expenses

Financial income

	2023	2022
Interest income on cash and cash equivalents	863.911	310.725
Interest income on Bonds and other long term receivables	4.619	7.381
Interest income on Joint Finance contract	292.357	68.301
Other interest income	23.342	487
	1.184.228	386.894

Financial expenses

	2023	2022
Interest expense and indexation	(2.494.552)	(1.396.017)
Other interest expense	(171.036)	(165.123)
	(2.665.589)	(1.561.140)

Net exchange rate differences

	2023	2022
Net exchange rate differences	179.716	(867.962)
	179.716	(867.962)

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8. Income tax

Income tax has been calculated and recorded in the consolidated Financial Statements, the amount charged in the Income Statement is ISK 603 million. Income tax payable in the year 2024 is about ISK 2.8 million due to foreign subsidiaries. In year 2022 income tax charged in the Income Statement was ISK 191 million and income tax payable in year 2023 was ISK 749 thousand.

The effective tax rate is specified as follows:

	2023		2022	
	Amount	%	Amount	%
Profit before taxes	2.704.792		(808.850)	
Tax rate	(540.958)	(20,0%)	161.770	20,0%
Other changes	(61.905)	(2,3%)	29.707	3,7%
Income tax according to Income statement	(602.863)	(22,3%)	191.477	23,7%

9. Property, plant and equipment

	Buildings and artwork	Aprons and car parks	Control systems	Other assets	Total
Cost					
Balance at January 1st 2022	40.209.619	22.862.265	2.744.931	16.058.597	81.875.413
Reclassification	0	(1.082.652)	656.046	955.986	529.380
Additions	7.434.845	4.554.959	68.481	3.029.227	15.087.512
Disposals	(19.794)	0	(156.148)	(1.210.148)	(1.386.089)
Sold	0	0	0	(35.711)	(35.711)
Balance at January 1st 2023	47.624.670	26.334.572	3.313.311	18.797.952	96.070.505
Reclassification	0	0	0	15.858	15.858
Additions	10.119.969	2.830.876	56.027	3.495.473	16.502.344
Disposals	(29.763)	(194.584)	(244.443)	(522.749)	(991.539)
Sold	0	0	0	(29.377)	(29.377)
Balance at December 31st 2023	57.714.876	28.970.864	3.124.895	21.757.156	111.567.791
Accumulated depreciation					
Balance at January 1st 2022	9.581.911	5.131.971	1.264.559	6.260.093	22.238.535
Reclassification	0	(1.082.652)	656.046	955.986	529.380
Depreciation for the year	1.093.674	805.256	284.310	1.225.949	3.409.189
Disposals	(19.794)	0	(156.148)	(1.210.148)	(1.386.089)
Sold	0	0	0	(24.828)	(24.828)
Balance at January 1st 2023	10.655.791	4.854.576	2.048.768	7.207.054	24.766.188
Reclassification	0	0	0	15.858	15.858
Depreciation for the year	1.132.274	1.035.430	267.241	1.254.277	3.689.223
Disposals	(29.763)	(194.584)	(244.443)	(522.749)	(991.539)
Sold	0	0	0	(23.614)	(23.614)
Balance at December 31st 2023	11.758.302	5.695.422	2.071.567	7.930.825	27.456.117
Book value					
Book value beginning of year 2023	36.968.879	21.479.996	1.264.543	11.590.898	71.304.316
Book value at year-end 2023	45.956.573	23.275.442	1.053.328	13.826.331	84.111.674

Estimated useful lives of fixed assets are as follows:

Buildings and artwork	0-100 years
Aprons and car parks	5-50 years
Fixtures and machinery	3-20 years
Other assets	3-70 years

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9. Property, plant and equipment (continued)

Construction is underway at Leif Eiríksson Airport due to expansion of the terminal and changes in spaces as well as construction in the airport area. In the year 2023, construction and other investments for around ISK 15.643 million were capitalized by the parent company (2022: ISK 14.637 million). Other investments in subsidiaries of Isavia ohf. amounted to ISK 859,4 million during the year (2022: ISK 450,5 million). In the future, there is ongoing construction due to the expansion of the terminal and changes in spaces, as well as ongoing construction in the airport area. On December 31st 2023, there were non-financial obligations due to contracts that belong to the projects ahead, and the obligation amounts to ISK 12.873 million (2022: ISK 10.011 million) at the parent company.

Depreciation:	2023	2022
Depreciation of property, plant and equipment see here above	3.689.223	3.409.189
Depreciation of intangible assets according to note 10	329.233	419.538
Depreciation of right-of-use assets according to note 11	120.534	102.844
	4.138.991	3.931.571

Information about the revalued properties in year-end:

	31.12.2023	31.12.2022
Revalued book value	94.727	97.723
Impact of the special revaluation	(45.197)	(46.812)
Book value without impact of revaluation	49.530	50.912

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

	2023		2022	
	Official real estate value	Insurance value	Official real estate value	Insurance value
Buildings and sites	40.156.351	85.649.485	35.168.677	65.210.880
Machinery and equipment, asset insurances		31.681.515		28.595.986
Other insurances		6.050.104		3.698.592
Halt insurance		13.017.555		8.005.102

Isavia ohf. and subsidiaries have common insurances.

10. Intangible assets and amortization

Consolidation	Usage agreement on facilities	Usage agreement on runways	Software and development cost	Total
Cost				
Balance at January 1st 2022	477.035	5.706.000	1.452.253	7.635.288
Additions	0	0	98.351	98.351
Disposals	0	0	(285.015)	(285.015)
Balance at January 1st 2023	477.035	5.706.000	1.265.589	7.448.624
Reclassification	0	0	(2)	(2)
Additions	0	0	82.702	82.702
Disposals	0	0	(36.452)	(36.452)
Balance at December 31st 2023	477.035	5.706.000	1.311.836	7.494.871
Depreciation				
Balance at January 1st 2022	206.752	2.473.036	599.901	3.279.689
Depreciation during the year	15.899	190.174	213.464	419.538
Disposals	0	0	(285.015)	(285.015)
Balance at January 1st 2023	222.651	2.663.211	528.350	3.414.212
Depreciation during the year	15.899	190.174	123.160	329.233
Disposals	0	0	(36.452)	(36.452)
Balance at December 31st 2023	238.550	2.853.385	615.058	3.706.993
Book value				
Book value at beginning of year 2023	254.384	3.042.789	737.238	4.034.412
Book value at year-end 2023	238.485	2.852.615	696.778	3.787.878
Depreciation rate	3,3%	3,3%	5-33%	

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10. Intangible assets and amortization (continued)

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 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 agreements

The group leases real estate and plots of land for its operations that fall under the accounting standard IFRS 16 Leases. The contractual rental period for real estate is 5 to 6 years plus one indefinite contract. The group's largest lease agreement, with the exception of an open-ended agreement, is for office space that expires after 2 years from the reporting date. The company has a pre-lease right for 5 years after the end of the contract period. The open-ended real estate contract has a 6-month notice period on both sides. The contractual lease period for land is between 44 and 48 years.

The following tables show, among other things, an analysis of the underlying asset classes of contractual lease payments where the company is the lessee.

Right-of-use assets	Property and land
Carrying amount at January 1st 2022	361.213
Adjustments for indexed leases	30.672
Depreciation	(102.844)
Balance at January 1st 2023	289.041
Adjustments for indexed leases	20.281
New or renewed leases	88.301
Depreciation	(120.534)
Carrying amount at December 31st 2023	277.088

Amounts recognised in income statement	2023	2022
Depreciation expense from right-of-use assets	120.534	102.844
Interest expense on lease liabilities	13.693	15.644
Total amount recognised in income statement	134.227	118.488
Payment of leases for the year	131.701	114.767

Lease liabilities		
Lease liabilities, long-term	162.014	194.284
Lease liabilities, current maturities next 12 months among current liabilities	128.608	108.594
	290.621	302.878

Lease liabilities

Maturity analysis, undiscounted lease payments	31.12.2023	31.12.2022
Less than 1 year	139.291	120.004
Later than 1 year and not later than 5 years	126.659	164.203
Later than 5 year	87.982	85.270
	353.932	369.476

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12. The Consolidation

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

	Ownership	Nominal amount	Principal activity
Shares in subsidiaries are as follows:			
Subsidiaries of Isavia ohf.			
Fríhöfnin ehf., Keflavik Airport	100,00%	50.000	Retail and commerce
Isavia ANS ehf., Reykjavik Airport	100,00%	310.500	Air traffic control services
Isavia Innanlandsflugvellir ehf., Reykjavik Airport	100,00%	52.350	Domestic airport operations
Subsidiaries of Isavia ANS ehf.			
Suluk ApS, Greenland	100,00%	1.999	Services of air traffic controllers
Tern Systems ehf., Kopavogur	100,00%	80.000	Software and consulting
Subsidiary of Tern Systems ehf.			
Tern Branch Hungary, Hungary	100,00%	16.877	Software and consulting

13. Bonds and other long term receivable

Bonds	31.12.2023	31.12.2022
Bond loan	38.643	46.693
Current maturities	(12.318)	(10.914)
	26.324	35.779

Long term receivable	31.12.2023	31.12.2022
Long-term assets - Joint Finance contract	1.463.851	1.951.802
Current maturities	(487.950)	(487.950)
	975.901	1.463.851
Total amount of bonds and other long term assets	1.002.225	1.499.630

Bonds and long-term assets instalments are specified as follows:

	31.12.2023	31.12.2022
Year 2023	0	498.865
Year 2024	500.269	499.356
Year 2025	500.823	499.869
Year 2026	501.402	500.405
	1.502.494	1.998.494

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

14. Inventories

	31.12.2023	31.12.2022
Goods for resale	663.216	555.181
Goods in transit	66.738	30.499
Allowance for old and obsolete inventory	(7.189)	(3.863)
	722.765	581.817

Changes in allowance for old and obsolete inventory:

At the beginning of the year	(3.863)	(6.126)
Change in the write-off for old and obsolete inventory	(37.122)	(18.945)
Inventories written off	33.797	21.208
At year-end	(7.189)	(3.863)
Insurance value of inventories	857.641	783.883

No inventories have been pledged at year-end.

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

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15. Other financial assets

Accounts receivables

	31.12.2023	31.12.2022
Domestic account receivables	5.147.913	4.278.486
Foreign account receivables	578.570	607.138
Allowances for doubtful accounts	(2.308.698)	(2.276.014)
Receivables Joint Finance contract	0	803.469
	3.417.784	3.413.079

Allowance for doubtful accounts

Changes in the allowance for doubtful accounts:

	31.12.2023	31.12.2022
At the beginning of the year	(2.276.014)	(2.254.744)
Change in the write off of receivables	(65.638)	(23.821)
Amounts written off as uncollectable	32.954	2.551
At year-end	(2.308.698)	(2.276.014)

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

Valuation of allowance for doubtful accounts in the year end 2023 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, 2019, Isavia exercised its authority to ground an aircraft operated by WOW air due to unpaid user fees for the operation of the airline at Keflavík Airport. The owner of the aircraft filed a lawsuit before the Reykjanes District Court, which overturned the grounding of the aircraft, despite clear provisions of law authorizing the suspension in the company's opinion. Due to this ruling of the Reykjanes District Court, it was considered appropriate to write down a fee claim in the amount of ISK 2.129 million in the group's books, despite the group's opinion that this was a wrong ruling.

Isavia sued the aircraft owner and the Treasury for damages caused by the installation. The District Court's judgment of December 22nd 2021 (Case E-1085/2020) agreed to all of Isavia's claims in addition to the payment of legal costs. With the rule of the National Court on May 12 2023, ALC and the Treasury were acquitted of Isavia's claims. The supreme court of Iceland formal hearing will be on April 8th 2024.

Age analysis and allowance for doubtful accounts for domestic and foreign account receivables were as follows.

	31.12.2023			
Days past due date	Expected loss	Gross amount	Allowance	Book value
Receivables not yet due	0,1%	2.519.416	2.425	2.516.991
1-90 days	3,1%	746.998	23.467	723.531
91-180 days	10,0%	67.337	6.734	60.604
181-270 days	44,3%	47.904	21.207	26.697
> 271 days	96,2%	2.344.827	2.254.865	89.962
Total		5.726.482	2.308.698	3.417.784

	31.12.2022			
Days past due date	Expected loss	Gross amount	Allowance	Book value
Receivables not yet due	0,2%	2.154.555	5.045	2.149.510
1-90 days	9,5%	327.208	31.062	296.145
91-180 days	10,0%	88.954	8.901	80.053
181-270 days	30,0%	28.455	8.537	19.919
> 271 days	97,2%	2.286.452	2.222.469	63.983
Total		4.885.624	2.276.014	2.609.610

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15. Other financial assets (continued)

Other receivables

	31.12.2023	31.12.2022
Value added tax	838.283	879.485
Prepaid expenses	241.857	143.183
Capital income tax	191.994	69.717
Prepaid salaries	26.799	34.442
Other receivables	691.390	658.904
	1.990.323	1.785.732

Cash and cash equivalents

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

	31.12.2023	31.12.2022
Bank deposits in ISK	9.547.496	8.172.569
Bank deposits in foreign currencies	5.963.903	1.318.940
Cash at hand in ISK	2.370	3.355
	15.513.769	9.494.864

16. Equity

Share capital is specified as follows:

	Shares	Ratio	Amount
Total share capital at year-end	24.559.063	100,0%	24.559.063
	24.559.063	100,0%	24.559.063

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

Statutory reserves
Funds are allocated to a lawfully required reserve fund in accordance with Icelandic laws on limited companies. The payment of a lawfully required reserve fund to shareholders in the form of dividends is not permitted. According to laws on limited companies, funds must be allocated to the reserve fund until it has reached 25% of the share capital.

Revaluation reserves
Upon the merger of Flugfjarskipti ehf. and Isavia ohf. the properties of the former 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.

17. Loans from credit institutions

	Loans from credit institutions	
	31.12.2023	31.12.2022
Liabilities in EUR	52.039.016	38.743.295
Liabilities in ISK	5.121.220	5.387.370
	57.160.236	44.130.665
Current portion of long-term liabilities	(1.232.193)	(1.758.655)
Non-current liabilities at year-end	55.928.043	42.372.010

Change in liabilities for the year is following:

	31.12.2023	31.12.2022
Liabilities at beginning of the year	44.130.665	44.447.034
New long-term borrowings in the year	34.182.500	14.136.409
Full repayment of loans with new loans	0	(14.136.409)
Instalments for the year	(21.246.270)	(1.365.184)
Exchange rate difference and indexation	93.342	1.048.814
Liabilities at the end of the year	57.160.236	44.130.665

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17. Loans from credit institutions (continued)

Instalments of loans from credit institutions are specified as follows:

	Loans from credit institutions 31.12.2023	31.12.2022
Instalments in 2024 / 2023	1.232.193	1.758.655
Instalments in 2025 / 2024	1.623.555	2.054.502
Instalments in 2026 / 2025	1.626.680	2.448.224
Instalments in 2027 / 2026	1.629.964	7.464.648
Instalments in 2028 / 2027	5.522.288	2.203.482
Instalments later	45.525.556	28.201.154
	57.160.236	44.130.665

The Parent company borrowed from the Nordic Investment Bank during 2023 that amounted to EUR 50 million to support the development at Keflavík Airport. The Company finalized its first bond issuance at mid-year 2023 and issued nonlisted bonds that amounted to EUR 175 million. The unlisted bond issue was used to refinance the company's older loans and to support the development of Keflavík Airport. Loans in the amount of ISK 56.273 million are subject to financial conditions regarding the equity and debt ratio.

18. Deferred tax assets

	31.12.2023	31.12.2022
Balance at beginning of the year	(1.370.781)	(1.178.092)
Calculated income tax for the year	602.863	(191.477)
Income tax payable for the next year	(2.821)	(749)
Translation exchange difference	(992)	(463)
Balance at the end of the year	(771.732)	(1.370.781)

Deferred tax assets consist of the following account balances

	31.12.2023	31.12.2022
Property, plant and equipment	1.952.801	2.112.270
Current assets	(458.206)	(444.607)
Other items	14.151	13.126
Exchange differences	(33.608)	14.895
Effect of carry forward income tax loss	(2.246.870)	(3.066.466)
	(771.731)	(1.370.781)

The carry-over of the tax loss of the consolidated group will, along with other items, form an income tax claim (deferred tax assets) at the end of the year and has been entered into the accounts of the company.

Tax loss carried forward can be used against taxable profit, as specified:

	31.12.2023	31.12.2022
Available to the year 2030	6.159.439	10.596.095
Available to the year 2031	4.339.935	4.338.709
Available to the year 2032	385.532	397.524
Available to the year 2033	349.443	0
	11.234.349	15.332.328

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19. Other financial liabilities

Accounts payable

	31.12.2023	31.12.2022
Domestic accounts payable	2.757.926	2.313.296
Domestic accounts payable - due to construction plan	253.105	1.662.307
Foreign accounts payable	756.814	729.437
Accounts payable due to Joint Finance contract	2.624.048	0
	6.391.894	4.705.041

Domestic accounts payable due to the construction plan belong to Isavia Innanlandsflugvellir ehf. and are because of the service agreement with the Ministry of Infrastructure, a part on construction. Payments for the year, the construction part, have already been received and therefore form this debt as these payments have not been fully disposed of. Cash and cash equivalents include credit due to these payments.

Account payable due to Joint Finance contract is due to reimbursement of cost of air navigation services in the North Atlantic. During 2023 the air traffic in Iceland's air traffic control area was more frequent than originally planned, which resulted in more being collected from user fees than the cost of the service. The contract specifies that if the collected user fees for the service are higher, a debt is created for the period.

Current maturities of long-term liabilities

	31.12.2023	31.12.2022
Loans from credit institutions	1.232.193	1.758.655

Other current liabilities

	31.12.2023	31.12.2022
Value added tax, payable	34.151	30.081
Accrued additional contribution to pension fund	150.576	16.858
Salaries and related expenses payable	827.252	808.496
Accrued holiday commitment	2.021.004	1.905.800
Accrued interest, payable	621.939	169.444
Other liabilities	309.422	72.116
Deferred revenue	155.960	173.254
Incomplete construction contract	70.413	0
	4.190.716	3.176.049

20. Financial risk

Financial instruments

The consolidated financial assets and liabilities are specified into following types of financial instruments and are all recorded at amortized cost:

Financial assets	31.12.2023	31.12.2022
Cash and cash equivalents	15.513.769	9.494.864
Bonds and other long term receivable	1.502.494	1.998.494
Other current receivables	4.947.457	4.951.468

Financial liabilities	31.12.2023	31.12.2022
Other financial liabilities	67.112.195	51.402.147

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:

	31.12.2023		31.12.2022	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on profit or loss and other equity	17.463	34.925	(63.202)	(126.405)

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. The following table details the currencies that affect the operations of the Consolidation. Rates and volatility in exchange rates are based on mid rates.

	Year-end rate	
Currency	2023	2022
EUR	150,50	151,50
GBP	173,18	170,81
JPY	0,963	1,077
CHF	162,53	153,85
DKK	20,19	20,37
NOK	13,39	14,41
SEK	13,56	13,62
USD	136,20	142,04
CAD	102,79	104,92
HUF	0,39	0,38

Foreign currency risk 31.12.2023

	Assets	Liabilities	Net balance
EUR	6.014.659	52.612.406	(46.597.747)
GBP	329.672	34.750	294.922
JPY	25	0	25
CHF	5.269	16.238	(10.970)
DKK	97.446	51.187	46.259
NOK	884	893	(9)
SEK	2.974	40.116	(37.142)
USD	87.848	69.803	18.046
CAD	162	0	162
HUF	7.801	4.311	3.490

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20. Financial risk (continued)

Foreign currency risk 31.12.2022

	Assets	Liabilities	Net balance
EUR	1.635.984	39.355.680	(37.719.696)
GBP	72.537	15.270	57.267
JPY	592	0	592
CHF	5.579	14.203	(8.624)
DKK	78.571	24.216	54.356
NOK	459	634	(175)
SEK	2.863	948	1.915
USD	118.662	74.645	44.017
CAD	260	0	260
HUF	13.701	3.952	9.749

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	31.12.2023		31.12.2022	
	5%	10%	5%	10%
EUR	(1.863.910)	(3.727.820)	(1.508.788)	(3.017.576)
GBP	11.797	23.594	2.291	4.581
JPY	1	2	24	47
CHF	(439)	(878)	(345)	(690)
DKK	1.850	3.701	2.174	4.348
NOK	(0)	(1)	(7)	(14)
SEK	(1.486)	(2.971)	77	153
USD	722	1.444	1.761	3.521
CAD	6	13	10	21
HUF	140	279	390	780

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 27 (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.

	31.12.2023	31.12.2022
Bonds and other long-term receivables	1.502.494	1.998.494
Accounts receivables	3.417.784	3.412.977
Other receivables	1.529.673	1.538.491
Cash and cash equivalents	15.513.769	9.494.864
	21.963.720	16.444.827

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

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Notes

20. Financial risk (continued)

Capital management

The Group's treasury management monitors the capital risk management in consultation with the owners, the board and management. The Group manages its financing in accordance with its ownership policy. Great emphasis is placed on long-term perspectives on the structure and operation of the group. It is also emphasized that the group's companies, especially when they are in competitive operations, return acceptable results and ensure the maintenance of income-generating assets. This means, among other things, that the Treasury receives a normal return on equity in accordance with the risk of operations.

Liquidity risk management

Liquidity risk is the risk that the Consolidation has difficulties to meet its financial obligations or planned investments, or that it will only be able to do so on much less favourable terms than has been the case. Liquidity status, developments and the impact of market conditions and future prospects are regularly monitored.

	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2023				
Non-interest bearing	9.951.959	0	0	9.951.959
Floating interest rates	1.998.795	5.320.160	5.294.257	12.613.211
Fixed interest rates	874.372	5.082.327	38.590.326	44.547.024
	12.825.126	10.402.487	43.884.583	67.112.195
Assets 31.12.2023				
Non-interest bearing	4.984.864	0	0	4.984.864
Floating interest rates	15.976.630	1.002.225	0	16.978.856
	20.961.495	1.002.225	0	21.963.720
Net balance 31.12.2023	8.136.369	(9.400.262)	(43.884.583)	(45.148.475)

	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2022				
Non-interest bearing	7.271.482	0	0	7.271.482
Floating interest rates	3.793.315	9.479.118	12.019.798	25.292.230
Fixed interest rates	579.589	4.691.738	13.567.107	18.838.434
	11.644.386	14.170.856	25.586.905	51.402.147
Assets 31.12.2022				
Non-interest bearing	5.001.367	0	0	5.001.367
Floating interest rates	9.943.830	1.499.630	0	11.443.460
	14.945.197	1.499.630	0	16.444.827
Net balance 31.12.2022	3.300.811	(12.671.226)	(25.586.905)	(34.957.320)

21. Other issues

Revenues of International Air Navigation Services

On the basis of a service agreement with the Ministry of Infrastructure, 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 Joint Financing Agreement which was signed in 1956 between 13 member countries of ICAO, The International Civil Aviation Organization. These member countries are now 25.

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21. Other issues (continued)

Court Proceedings

In 2015, Drífa ehf. started a lawsuit against Isavia ohf. where compensation was claimed for alleged damage in connection with the implementation of pre-selection for the rental of retail space in the duty-free area of Leif Eiríksson Air Terminal. The compensation claimed was ISK 1,5 billion. By rule of the district court on 13 October 2021, Isavia was acquitted of Drífa claims. Drífa has appealed the case to the National Court. The main hearing was before the National Court on February 24th, 2023. With the judgment of the National Court on March 24th, the company was acquitted and compensated to 2.5 million ISK in legal costs. Drífa sought leave to appeal to the Supreme Court, which rejected the appeal on June 16, 2023. The case is therefore closed.

The bankruptcy estate of Air Berlin has sued the company due to the grounding of its aircraft in 2017. The amount of the claim is EUR 795 thousand (ISK 120 million ISK). The bankruptcy estate's claim was accepted in a lower court in Berlin in December 2021. The case was appealed to the higher court in Berlin, which confirmed the decision of the lower court on February 22, 2023, further appeals are under consideration. The bankruptcy estate suspended the payments of two German airlines to Isavia for this amount. Subsequently, Isavia grounded the aircraft to guarantee the payment of these fees in this country, and a case is now pending before the Reykjavík District Court to confirm the guarantee payment.

Note no. 15 contains information on a lawsuit where Isavia ohf. sued the owner of a Wow air aircraft and the Treasury.

Disputes regarding the seniority of air traffic controllers are being prosecuted in the district court, and in addition, there are several court cases in progress that the company believes are unlikely to succeed or are due to insignificant interests.

22. Other obligations

Operating license

Isavia ohf. and its subsidiaries have an indefinite operating licenses 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.

Isavia ANS ehf. has an operating license without a time limit for the operational management of air traffic and air navigation services in accordance with Regulation no. 720/2019, and which remains valid as long as its conditions are met. The company is also the holder of a certificate as an air traffic controller training company and is a declared operator for non-profit activities (NCC) and special operations (SPO) in accordance with Regulation no. 237/2014 with subsequent amendments.

Service agreements

Isavia ohf. has service contracts with the Ministry of Infrastructure for five years, starting in 2019, for the operation of air navigation and airport services, and the contracts will expire on April 15, 2024. There are four contracts, i.e. on the operation of air navigation, on the operation of domestic airports and the development of domestic airports and on the operation of Keflavík Airport. The aim is to sign a new five-year contracts regarding Isavia ANS ehf. and Isavia ohf. but for two years regarding the operation of Isavia Innanlandsflugvalla ehf. and the development of domestic airports with an effective date from April 15, 2024. Furthermore, the company must respect the international obligations that the Icelandic government has undertaken on the basis of international agreements, as well as carrying out the maintenance and development of domestic airports in accordance with the decisions of the Icelandic government at any given time.

With the division of Isavia ohf. in 2020, the implementation of the contract for air navigation services was delegated by contract to Isavia ANS ehf. The implementation of contracts for the operation and development of domestic airports was delegated by contract to Isavia Innanlandsflugvellir ehf. The operation of Keflavík Airport was unchanged by the parent company. Upon the transfer of the above agreements, the parent company, in the agreement with them, guaranteed the financing of the activities of Isavia ANS ehf. and Isavia Innanlandsflugvellir ehf., including access to liquid assets, in order not to disrupt the companies' operating licenses during the change. The companies currently have indefinite work permits from the Icelandic Transport Agency for this operation, but are subject to their conditions as they are at any given time. New contracts with the Ministry of Infrastructure will be made by each company individually.

Payments for services and construction at domestic airports are determined according to the aforementioned service contracts for one year at a time. They stipulate that payments must take into account price changes, but in recent years that provision has not been respected and payments are determined in each year's budget.

22. Other obligations (continued)

The service contract for domestic airports is divided into two parts. On the one hand, payments to the company for the daily operation of domestic airports cf. Note 4. On the other hand, there are payments to the company for projects related to maintenance and new construction at domestic airports cf. Note 19. There are no property transactions with the company due to projects related to maintenance or new constructions, as such constructions are not the property of the company but of the state, but the company is only entrusted with managing these projects.

Projects for maintenance and new construction at domestic airports are according to the applicable transport plan at any given time. The biggest project is at Akureyri Airport, but it is expected to be carried out for around 1 billion ISK. Other construction projects at scheduled airports amount to around 500 million ISK. A review of the 15 year transport plan for the years 2024 to 2038 is currently underway, and both maintenance projects and new constructions will be included. At the three international airports there are deviations due to approach lights and they will be financed in the next transport plan.

Insurance

The insurance cover of Isavia ohf. applies to the consolidated group as a whole.

In addition to statutory insurance and special liability insurance for real estate and vehicles, 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 to the subsidiary's aircraft is insured for USD 4.5 million and spare parts for USD 2 .5 million.

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 events 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. Related parties of the group 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 group controls or has a significant influence are also considered related parties. Isavia ohf. is a government owned and a partial exemption is provided from the disclosure requirements for government-related entities in the revised version of IAS 24. But the group's main transactions with public entities is an agreement with the state on the operation of domestic airports, which belongs to the subsidiary Isavia Innanlandsflugvellir ehf. The segment report provides information on the operations of Isavia Innanlandsflugvellir ehf.

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 13th, 2024.

26. Consolidated ratios

From Statement of Comprehensive Income:		2023	2022
	Profitability		
	Earnings (loss) before interests, taxes, depreciation and amortisation (EBITDA)	8.145.427	5.164.929
a)	Contribution margin on operation	18,08%	14,15%
b)	Profit (loss) margin on operating revenue	4,66%	(1,69%)
c)	Earning per share (EPS)	0,09	(0,03)
d)	Return on equity	4,89%	(1,57%)

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

From Balance sheet:		31.12.2023	31.12.2022
	Activity ratios		
e)	Investment in inventories	0,02	0,02
f)	Rate of return on assets	0,44	0,40
g)	Inventory turnover	11,60	11,92
h)	Receivables turnover	13,19	11,09

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

	Liquidity ratios		
i)	Quick or acid-test ratio	1,79	1,56
j)	Current ratio	1,85	1,62
k)	Net Interest-bearing Debts/EBITDA	5,15	6,76

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

	Coverage ratios		
l)	Equity ratio	39,31%	44,51%
m)	Internal value of shares	1,79	1,71

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

27. Summary of Significant Accounting Policies

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 works according to a comprehensive risk policy and where the main risk factors have been defined. Emphasis is placed on knowing the risks that can affect the company's goals. The Consolidation manages, among other things, financial risk, but the defined key risks are liquidity risk, market risk, credit risk and economic risk. Within the Consolidation is a separate risk committee whose goal is to ensure that the organization and implementation of risk management is in accordance with the board's policy. The committee's tasks include an overview and control of the entire risk management for the Consolidation.

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27. Summary of Significant Accounting Policies (continued)

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 - Isavia ANS ehf.

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 - Isavia Innanlandsflugvellir ehf.

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 Infrastructure, but other revenues consist of user charge and leasing of buildings. All buildings at airports in Iceland besides Keflavik airport are under control of the Icelandic state.

Keflavik airport - Isavia ohf.

The organisation of Keflavík Airport is divided into commerce and development on one hand and services and operations on the other. Commerce and development deals with airlines and routes, business and marketing, the operation and investment in infrastructure along with airport development and improvements in the airport. The services and operations part deals with security, aviation protection, passenger services and the operation of the airport tower.

Fríhöfnin ehf. (Duty free store)

Revenue from Fríhöfnin ehf. 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 other various revenues.

Lease income

The group is a lessor and rents out the group's various properties. All leases are classified as operating leases. Part of the rental income from the group's real estate space falls within the scope of IFRS 16 Leases, while the other property income specified above is within the scope of IFRS 15 Income from contracts with customers. Leasing can be between companies within a group or outside the group to a third party.

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.

Property lease is primarily the parent company's lease of spaces in Leif Eiríksson Airport and land and real estate directly connected to the terminal. Since Leif Eiríksson Airport is a single property number, it is not possible to differentiate between an investment property for rent and a property for own use.

Payment terms

The Group's general payment terms are a 30-day payment deadline. The Group does not have any unusual payment terms.

Recognition of expenses

Expenses incurred to generate income during the period are recognized as operating expenses. Fees incurred during the financial year but for subsequent financial years are recognized in the balance sheet as prepaid expenses. Expenses that relate to the financial year but are payable later are recognized as a liability as accrued expenses in the balance sheet.

27. 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 occur in the foreseeable future. Deferred income tax is based on the applicable tax rate at the reporting date.

Deferred tax assets 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.

27. 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 Flugfjarskipti 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.

The general and special cost of borrowing directly attributable to the procurement, construction and production of an asset is booked as an asset at the time necessary to bring the asset into a remunerative state. Qualifying assets are assets that need time to become remunerative. Other borrowing costs are expensed in the period incurred.

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.

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 assessments they are stated at cost less accumulated depreciations and impairment losses.

Shares in other companies

Shares in other companies are at cost price, but it is the management's judgement that the cost is approximately its fair value.

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 exercise price of purchase options if the Consolidation expects to exercise 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 change in an index or rate or when a lease contract is modified and the modification is not accounted for as a separate lease.

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.

27. Summary of Significant Accounting Policies (continued)

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.

Cash and cash equivalents

Cash and cash equivalents cover cash on hand, bank deposits and other short-term investments easily converted to cash and with a maturity of up to three months. Bank overdrafts are shown amongst short-term liabilities in the balance sheet.

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 instalments 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.

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.

27. Summary of Significant Accounting Policies (continued)

Financial assets (continued)

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 allowance 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.

Financial liabilities and equity instruments

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.

Notes

28. Segment reporting

Segment information are disclosed on basis of organizational structure and internal management information. The majority of business for Isavia ANS ehf. consists of service to air carriers on the basis of a Joint Finance Agreement. Isavia Innanlandsflugvellir ehf. 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. In Note 27 there are information regarding each segment.

Within the income of segments are lease income that amounts ISK 8.861 million (2022: about ISK 7.037 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 27.

Segment information year 2023

	Isavia ANS ehf.	Isavia Innanlands-flugvellir ehf.	Isavia ohf.	Fríhöfnin ehf.	Other subsidiaries	Eliminations	Consolidated
	Air-navigation	Domestic Airports	Keflavik Airport	Duty Free Store	Other		
Revenue							
External revenue	7.646.980	3.217.347	19.022.231	14.767.737	403.668		45.057.963
Inter-segment revenue	1.651.583	42.337	5.298.058	0	1.105.386	(8.097.364)	0
Total revenue	9.298.563	3.259.684	24.320.289	14.767.737	1.509.054	(8.097.364)	45.057.963
Income statement							
Operating profit	1.065.976	(171.109)	2.527.112	636.599	10.538	(62.679)	4.006.436
Net financial income / (expenses)	(142.168)	(22.560)	(707.538)	(10.649)	2.744	(421.474)	(1.301.645)
Profit before taxes	923.808	(193.669)	1.819.574	625.949	13.282	(484.153)	2.704.792
Profit for the year	739.082	(154.939)	1.453.785	500.756	47.894	(484.649)	2.101.928
Balance sheet							
Non-current assets	5.933.593	1.323.773	86.963.404	453.653	189.777	(4.908.604)	89.955.597
Other assets unallocated to segments	2.149.669	615.195	17.186.243	2.688.972	655.181	(1.150.350)	22.144.910
Total assets	8.083.263	1.938.969	104.149.647	3.142.624	844.958	(6.058.954)	112.100.506
Total liabilities	6.539.011	2.242.659	62.315.298	1.593.941	400.827	(5.055.448)	68.036.288
Equity	1.544.252	(303.690)	41.829.255	1.548.684	444.130	(998.412)	44.064.218
Other information							
Capital additions	638.196	94.198	15.687.959	155.995	8.698	0	16.585.046
Depreciation and amortization	321.212	127.685	3.607.257	217.880	50.545	(185.587)	4.138.991

Consolidated Financial Statements of Isavia ohf. 2023 32 All amounts are in thousands of ISK

Notes

28. Segment reporting (continued)

Segment information year 2022

	Isavia ANS ehf.	Isavia Innanlands-flugvellir ehf.	Isavia ohf.	Fríhöfnin ehf.	Other subsidiaries	Eliminations	Consolidated
	Air-navigation	Domestic Airports	Keflavik Airport	Duty Free Store	Other		
Revenue							
External revenue	7.268.260	2.745.088	13.521.042	12.418.890	552.217		36.505.496
Inter-segment revenue	842.577	40.251	4.616.913	0	831.167	(6.330.908)	0
Total revenue	8.110.836	2.785.340	18.137.955	12.418.890	1.383.383	(6.330.908)	36.505.496
Income statement							
Operating profit	466.545	(290.364)	127.460	911.514	33.635	(15.432)	1.233.358
Net financial income / (expenses)	(366.954)	17.397	(1.645.670)	(55.399)	4.266	4.153	(2.042.208)
Profit before taxes	99.591	(272.967)	(1.518.210)	856.114	37.900	(11.279)	(808.850)
Profit for the year	79.669	(218.378)	(1.221.464)	684.888	66.935	(9.023)	(617.373)
Balance sheet							
Non-current assets	6.116.029	1.351.035	77.668.255	268.868	108.086	(7.009.092)	78.503.180
Other assets unallocated to segments	2.586.485	1.736.788	12.275.502	2.537.094	547.033	(3.908.544)	15.774.357
Total assets	8.702.514	3.087.822	89.943.757	2.805.962	655.118	(10.917.637)	94.277.537
Total liabilities	7.892.862	3.236.574	49.572.546	1.328.034	259.015	(9.973.650)	52.315.381
Equity	805.169	(148.751)	40.375.469	1.477.928	396.103	(943.763)	41.962.156
Other information							
Capital additions	310.724	149.927	14.701.960	20.456	2.795	0	15.185.862
Depreciation and amortization	345.572	131.472	3.297.195	226.644	102.814	(172.126)	3.931.571

Consolidated Financial Statements of Isavia ohf. 2023 33 All amounts are in thousands of ISK

Appendix I Statement of Governance

The Statement of Governance is the report of the Board of Directors for the Board's past operating year 2023 - 2024 and is published together with the financial statements for the calendar year 2023. The Statement of Governance is made in accordance with Article 66. c of the Act on Annual Accounts no. 2006 with subsequent amendments.

With this statement of governance, Isavia is complying with the corporate governance guidelines issued by the Iceland Chamber of Commerce, SA - Confederation of Icelandic Enterprise and Nasdaq Iceland, issued July 1, 2021 and is the 6th edition. The company also follows the General Ownership Policy of the state for all state-owned companies, issued in September 2021.

Laws and regulations

Isavia ohf. is a public limited company owned by the Icelandic government. The company's activities are governed by law no. 65/2023 on the development and operation of airports and air traffic services and Aviation Act No. 80/2022.

Isavia´s Corporate governance is based on Act No. 2/1995 on Private Limited Companies, the company's articles of association and the rules of procedure of the board of directors.

The Board of the company take into account the guidelines on corporate governance and complies with them in all material senses. The main deviation is that there is no active nomination committee at the company, as nominations to the company's board are made by the Minister of Finance and Economic Affairs, who manages the shares own by the Icelandic government in the company. There have been no court rulings where the company's activities are considered to have been in violation of laws or regulations.

The laws on the company can be accessed on the Althing's website, www.althingi.is, and articles of association and rules of procedure on the company's website www.isavia.is. Guidelines on corporate governance can be found on the Iceland Chamber of Commerce's website. The guidelines are published at https://leidbeiningar.is. More information about the legal and regulatory framework that Isavia must follow, as applicable to Isavia operations, can be found here: Laws & regulations | Samgöngustofa (samgongustofa.is).

Internal control and risk management

The board has approved a comprehensive risk policy for the company where the main operational risk factors have been defined and identified the main risk components in its operations.

Isavia risk management is based on the concept of comprehensive risk management (e. enterprise risk management).

The risk strategy is based on Isavia overall strategy and is intended to support strategy and set goals. The purpose of Isavia risk policy is to ensure effective risk management and a good risk culture. Approved methods for risk analysis and risk assessment are used and a harmonized process is used for parent and subsidiary companies.

Isavia operates a risk committee whose goal is to ensure that the organization and implementation of risk management is in accordance with the board's policy. The committee's tasks include an overview and control of the group's entire risk management. The risk committee consists of the CEO, the Chief Finance and Human Resources officer and the Risk Manager and risk management expert.

PricewaterhouseCoopers ehf. manages the company's internal audit, according to the contract, which, among other things, assesses risk management, control methods and governance at all companies within the group using systematic methods and thus supports the company in achieving its goals.

Chief Officers are responsible for highlighting, defining and assessing risk within their areas as well as establishing appropriate controls to

The Board

The Board consists of five members and five alternates elected at a shareholders meeting for a term of one year at a time. Board members are nominated to the Board by the Minister of Finance and Economic Affairs. In the Board the gender ratio is 40% women and 60% men. All Board members are viewed as independent, within the meaning of the as Guidelines on Company Governance.

Appendix I Statement of Governance

The activities and rules of procedure of the board of directors

The board of directors has set operating rules that define the main tasks and areas of authority of the board and CEO. The current rules of procedure were approved at a board meeting on December 13, 2023. These include provisions regarding the division of tasks within the board, rules on eligibility for participation in handling matters, on meeting rules and minutes, rules on confidentiality, disclosure to the board and decision-making power. The rules of procedure of the board are published on the company's website.

The main role of the board is to manage the company's affairs between shareholders' meetings, to ensure that there is sufficient control over the company's accounting and handling of funds, to confirm the operating and investment plans and ensure that they are followed. The board makes major decisions in the company's operations and ensures that the company is run in accordance with laws and regulations.

The board must also promote the company's operation and ensure its long-term success, by setting the company a strategy in cooperation with its management.

During the working year 2023 - 2024, 14 board meetings were held. All board meetings were quorate as all meetings of the board were full. The Board's work plan for the next operating year is available after the Annual General Meeting. The Chairman of the Board leads the meetings. In addition to the Board, the CEO, the Director of Finance and Human Resources and the Chief Legal Officer, who also writes the minutes are signed by the board, the CEO and CFO.

The evaluation of the work of the board of directors

The Board of Directors evaluates its work on a regular basis, work methods and procedures, the company's progress, the CEO's performance, as well as the effectiveness of subcommittees if they are active. Such an evaluation of performance includes, among other things, that the board assesses the strengths and weaknesses in its work and procedures and considers the things that it believes can be improved.

The appointment of Isavia board of directors 2023–2024

Kristján Þór Júlíusson, born in 1957, is the chairman of the board from 2022, with a teaching qualification from the University of Iceland and a Captain's qualification from the Marine School in Reykjavík. Kristján Þór was a Member of Parliament for the Northeast Constituency 2007-2021. He was Minister of Health 2013-2017, Minister of Education and Culture and Minister of Nordic Cooperation 2017 and Minister of Fisheries and Agriculture 2017-2021. He was a member of Alþingi Budget Committee 2007-2013, Industry Committee 2007-2009 and Environment Committee 2009-2011.
Kristján Þór was mayor of Dalvík 1986-1994 and mayor of Ísafjörður 1994-1997. Served on the Akureyri town council 1998-2009 and was mayor of Akureyri 1998-2006. Chairman of the board of the Iðnþróunarfélag Eyjafjarður hf. 1987–1992. On the board of the company's Útgerðarfélag Dalvíkinga hf. 1987–1990, Söltunarfélag Dalvíkur hf. 1987–1993, and Sæplast hf. 1988–1994. Kristján Þór was chairman of the board of Hafnarsamband sveitarfélaga 1994-1997 and chairman of the board of Eyþing 1998-2002. On the board of Togaraútgerð Ísafjarðar hf. 1996–1997 and chairman of the board of Samherja hf. 1996–1998.
On the board of the Samband íslenskra sveitarfélaga 1998–2007. Chairman of the board of the Akureyri City Employees' Pension Fund 1998–2007. On the board of the Fjárfestingarbanki atvinnulífsins 1999–2000. On the board of the Eignarhaldsfélag Burnabótafélags Íslands 1999–2008. In the Icelandic Tourism Board 1999–2003. In the years 1999-2007, Kristján Þór sat on the board of Landsvirkjun. He was the chairman of the board of Lífeyrissjóður Norðurlands 2000-2007 and on the board of Fasteignamat ríkisins in the same period. Kristján was on the board of Íslensk verðbréf 2002–2009. Kristján Þór was elected to Isavia board at the 2022 general meeting and sits on Isavia remuneration committee.

Hólmfríður Árnadóttir, born in 1973, is a board member from 2022, with a B. Ed. and M.Ed. degrees from the University of Akureyri and Dipl. Ed. degree from the University of Iceland. Hólmfríður works as the department head of Kennslumiðstöð of the University of Iceland and project manager of distance learning at the same school. She has over 20 years of management, consulting and teaching experience. She worked as a school principal from 2016-2022 and as an expert at the University of Akureyri from 2012-2016. She has served on numerous boards, councils and committees. Hólmfríður was elected to Isavia board at the 2022 general meeting and sits on Isavia remuneration committee.

Hrólfur Ölvisson studied politics and media studies at the University of Iceland. Since 2016, Hrólfur has worked as the manager of Jarðefnaíðnaðar ehf. as well as sitting on the company's board of directors. He also sits on the board of Sementsverksmiðinn ehf. and Eignarhaldsfélagið Hornsteinn ehf. together with holding the chairmanship of the board at Bær hf. Hrólfur has held numerous management positions before, but among other things he worked as the managing director of the newspaper Tímans 1988-1993 and as the managing director of the Progressive Party 2010-2016. He has also served on numerous boards over the years, but among other things he was on the board of the Búnaðarbankinn Bankaráð 1998-2001, was the chairman of the board of the Fire Protection Agency 1997-2001, of the Purchasing Council of the City of Reykjavík 2003-2005 and chairman of the Labor Agency 1998-2007. Hrólfur was elected to the Isavia board at the 2023 general meeting.

The appointment of Isavia board of directors 2023–2024 (continued)

Nanna Margrét Gunnlaugsdóttir, born 1978, board member since 2018, business administrator with an MBA from Reykjavík University. Since 2008, Nanna has run her own company, i.e., in retail and later in various investment projects as well as being on the boards of several companies, worked at Eimskipafélag Íslands from 1998-2008, i.e. in the treasury department and as a sales manager in the sea and air freight department. Nanna Margrét was elected to the board at the 2018 general meeting and is on Isavia audit committee.
Other board positions:
Nanna is on the board of Fríhöfnin ehf.

Jón Steindór Valdimarsson, born in 1958, board member since 2022, MPM (Master of Project Management) from the University of Reykjavík and with a Law degree (Cand. Juris) from the University of Iceland. Jón Steindór was a Member of Parliament in 2016-2021. He was the manager of the companies TravAble ehf. and Nordberg Innovation ehf. in 2015-2016. Then he was assistant manager and later manager of the Samtaka iðnaðarins 1988-2010. Jón Steindór was on the board of Regin hf. 2014-2015; Board of the Alþjóðamálastofnunar Háskóla Íslands 2002-2013; chairman of the board of Landsbréf hf. 2011-2013; vice chairman of the board of the Framtakssjóður Íslands 2011-2012 and on the board of the Nýsköpunarsjóður atvinnulífsins 2000-2010, of which chairman of the board in 2004-2010. Jón Steindór was elected to Isavia board at the 2022 general meeting and is on Isavia audit committee.

Board alternates

Dóra Sif Tynes, born 1972, lawyer, owner at Advel lawyers.
Ingveldur Sæmundsdóttir, born 1970, MBA, assistant to the Minister of Infrastructure.
Sigrún Traustadóttir, born 1962, MBA, consultant. Was the main member of the board 2014-2017, deputy from 2017.
Tómas Ellert Tómasson, born 1970, civil engineer, currently works for SG-hús ehf. on Selfoss.
Valdimar Halldórsson, born 1973, BA in economics and MSc in business administration from the University of Iceland. Was a main member of the board 2018 – 2022.

CEO

The CEO handles the day-to-day operations of the company according to policy and instructions of the board of directors. Day-to-day operations do not include measures that are unusual or significant. He has decision-making power over all operational and financial matters of the company and is in charge of its assets. The CEO reports to the board of directors on the company's activities and results at board meetings, is responsible to the board and complies with the company's articles of association, laws and regulations. The director does not have any related interest with business partners and/or competitors.

The CEO is Sveinbjörn Indriðason, born in 1972, an economist from the University of Iceland in 1998. He worked for Fjárfestingarbanki atvinnulífsins and worked in risk management for Icelandair from 1999 to 2005. Sveinbjörn was CFO of FL Group from 2005 to 2008 and Chief operating and Financial Officer of CLARA from 2011. Sveinbjörn was Isavia Chief Financial Officer from 2013 until June 2019, when he was appointed Isavia CEO.

The CEO also oversees and supervises Isavia ohf's subsidiaries. The ownership policy of Isavia ohf's subsidiaries has been established, which seeks to clarify the responsibilities and roles of the owner, the company, the board and management to promote good governance and a clear strategy. Thus, the ownership policy should ensure transparent, professional and efficient management of subsidiaries. Appendices have also been made which set out policies, rules and guidelines that are followed on a consolidated basis. These include human resources policy, sustainability policy, comprehensive risk management policy, ethics and the handling of personal information to name a few. The ownership policy and appendix are available on the company's website www.isavia.is.

The company's financial statements

Isavia fiscal year is the calendar year. The company's financial statements can be accessed at the Register of Annual Accounts as well as on the company's website www.isavia.is.

Subcommittees

There are two subcommittees of the board of directors, committee members are appointed by the board of Isavia ohf.

Remuneration committee

The board of Isavia appoints two individuals to the remuneration committee who also sit on the company's board. The main task of the remuneration committee is to prepare an annual draft remuneration policy that is submitted to the company's annual general meeting, to prepare a proposal for the annual general meeting on the remuneration of the board, to prepare a proposal to the board on criteria for salaries and other remuneration of CEOs and managing directors of subsidiaries. The remuneration committee monitors that the remuneration policy is implemented and that salaries and terms of employment are in accordance with laws, rules and good practice. The rules of procedure of the remuneration committee together with the company's remuneration policy can be found on the company's website.

Appendix I Statement of Governance

Audit committee

Chapter IX of Act no. 3/2006 on annual accounts, cf. Act no. 80/2008 applies to the audit committee. The company's board sets the committee's rules of procedure, to further complement the law. At its first meeting after the Annual General Meeting each year, Isavia board of directors appoints three individuals to Isavia audit committee. It consists of three members, one independent of the company and two members of the board. The main role of the audit committee is to assess the company's supervisory environment, analyse the effectiveness of internal auditing, monitor the implementation of auditing, make a proposal for the selection of an external auditor in consultation with the National Audit Office, cf. Article 7 Act no. 46/2016 on the Auditor General and the audit of the central government accounts, together with an assessment of the auditor's independence, an assessment of the effectiveness of risk policy, risk appetite and risk management, and ensure compliance with applicable laws and regulations. The committee's other tasks include reviewing financial information and the arrangements for providing information from management, internal auditing and external auditors, and verifying that the information the board receives about the company's operations, position and future prospects is reliable and gives the clearest picture of the company's position at any given time. Roles and rules of procedure can be found on the company's website.

Arrangements for shareholder and board of directors relations

One shareholder, the Icelandic state, owns all the shares in the company and the Minister of Finance and Economic Affairs controls the share. Notice of a shareholders' meeting is sent to a contact person at the Ministry of Finance and Economic Affairs. Shareholder meetings are the main forum for providing information to the shareholder. Other communication with shareholders on the company's affairs is in most cases initiated by the company. The Chairman of the board of directors and the CEO have had meetings with the Minister or employees of the Ministry of Finance.
The board of directors and the CEO of the company follow the General Ownership Policy of the state for all state-owned companies in their work. The company sends out press releases that inform about the company's results and other aspects of its operations, as applicable.

Statement of governance was approved at the board meeting of Isavia ohf. on the March 13th 2024.

Appendix II Non-financial disclosure

The business model

Isavia ohf. is a public limited company that handles the operation, maintenance and development of Keflavík Airport. Its subsidiaries are three: Isavia Innanlandsflugvellir ehf. which handles the operation of airports for domestic scheduled flights and landing sites in Iceland, Fríhöfnin ehf. which handles the operation of four duty free shops in Leif Eiríksson Air Terminal and Isavia ANS ehf. providing domestic and international air navigation services across the North Atlantic. The subsidiary Isavia ANS ehf. owns two subsidiaries, Tern Systems ehf. which is a software company and Suluk ApS which is a service for air traffic controllers in Greenland. Tern Systems ehf. owns one subsidiary, also a software company, which is Tern Branch Hungary.

Isavia is a service company which operates and maintains the infrastructure on which Icelandic aviation is based, its connection with the rest of the world and aviation between continents. The company’s activity is therefore vital for the nation and the economy. Wide emphasis is placed on those economic actors that rely on the services of the company and are impacted by it.

Isavia operates in an international competitive market where competition between airports is keen. The market environment has undergone profound change in recent years, with no end in sight. Greater emphasis has been placed on sustainability in airport operations, and Isavia has made a determined effort in recent years to ensure future sustainability. The company sees great opportunities in Iceland’s future competitive advantage, based on the environment and sustainability. The company’s policy reflects these views.

Strategy

The purpose of Isavia, the parent company, is to lead an airport community that increases the quality of life and prosperity in Iceland, and the vision is to connect the world through Iceland. The purpose emphasizes the role of Keflavík Airport as an important infrastructure for Icelandic society and the responsibility that comes with it in a sustainable future. The overall purpose and strategy reflects the company's focus on sustainability and the balance between the economy, environment and society.

Isavia vision is to connect the world through Iceland. It focuses on the development of the transfer hub and reflects the expected development in the coming years in air transport. In order to support the development, the airport's infrastructure needs to be built. The company's strategy aims to deliver a leading airport that will grow sustainably and support the nation's prosperity. After all, they deliver significant economic benefits for the economy.

Key metrics

The key metrics of Isavia ohf., the parent company, were updated during the year to work systematically towards the success of the strategy. The company's management worked on proposals for strategic measures that were approved by the executive board. It was decided to work on five key metrics in 2023. They are:

Goal 1: The return on equity will be over 10% in 2027. It will increase from 1.9% to 3.2% in 2023. Return on equity in 2023 was 3.54%.

Goal 2: The percentage of satisfied customers will be 85% in 2027. It will go from 84% to 85% in 2023 for passengers. The percentage of satisfied customers for the year 2023 was 83%.

Goal 3: Employee satisfaction will exceed 8 out of 10 in 2027. It will go from an average of 7.5 to 8.0 in 2023 and remain there. Average employee satisfaction in 2023 was 7.7.

Goal 4: Keflavík Airport's carbon footprint will be below 1,000 tons of CO_2 in 2027. It will decrease from 2,185 tons to 1,760 tons by the end of 2023. The measurement for 2023 was 1,928 tons.

Goal 5: There will be no serious safety, security or occupational health incidents at Keflavík Airport in 2027. No serious incidents in the safety, security and occupational health and safety categories attributable to Isavia operations and infrastructure at Keflavík Airport in 2023. The number of serious incidents in 2023 in safety and aviation security was 38.

Sustainability

The Isavia group has a policy of social responsibility and has supported the UN Global Compact since 2016. With that, Isavia commits itself to ensure that its policies and practices are in line with the ten criteria of the United Nations on human rights, labour issues, environmental issues and anti-corruption measures. Isavia supports the United Nations' Global Goals for Sustainable Development and works systematically towards them. The Isavia group has a sustainability policy that states that the company has sustainability as its guiding principle in everything it does. The policy is supported by five-year action plans tailored to each company in the group, valid until the end of 2026.

Isavia goals, metrics and actions to achieve sustainability are set out in a five-year sustainability action plan that was submitted to the Environment Agency at the end of 2021, as required by law. When choosing the goals and remedial projects related to them, we looked at the nature of the company and its metrics, the suggestions of external stakeholders, the Global Goals and the government's emphasis on them and on climate issues. Account was also taken of improvement opportunities linked to the GRI factors, the company's commitments to the principles of the UN Global Compact and incentive projects that the company is a member of. In addition, ACI (Airport Council International) has issued guidelines on sustainability paths for airports that were taken into account. The action plan was submitted to the CEO and executive board for approval and presented to the board of directors.

Sustainability (continued)

Work was carried out systematically according to the action plan in 2023, and actions were followed up in the company's strategic accounting. Work was done on 25 measures in sustainability. About 45% success was achieved in their progress. A total of 6 measures out of 25 were completed in 2023 in the four categories covered by the sustainability policy. Some measures were moved to 2024, as they were set for more than one year. Isavia strategy and action plan in sustainability are currently being revised in accordance with the changes that have been and are to come in the company's external environment. You can access more detailed information about Isavia Sustainability Policy along with an action plan here: https://www.isavia.is/fyrtirtaekid/um-isavia/samfelag-og-umhverfi/samfelag/sjalfbaerni.

Environmental issues

In accordance with the company's sustainability policy, Isavia guiding principle is to keep the negative environmental impact of its activities to a minimum in harmony and cooperation with stakeholders with a focus on climate issues. Keflavík Airport is a participant in a carbon certification system organized by the Airports Council International (ACI) called Airport Carbon Accreditation (ACA) and has a certified environmental management system according to the international standard ISO14001. Isavia carbon footprint has been reviewed and verified by an external party, the international accounting firm Bureau Veritas. Certification was supported according to ISO 14064-3 and awarded limited assurance.

Fuel consumption is the most important environmental factor in Isavia operations. Fuel consumption in the operation is closely monitored and efforts are made to reduce it where possible. Most of the use is for service and maintenance of runways and tarmacs areas of the airports. In 2021, a detailed analysis was made of the replacement of vehicles at Keflavík Airport. As a result, a decision was made that the airport would be carbon-free by 2030, which means that all vehicles owned by Isavia ohf. will be based on environmentally friendly energy sources. Isavia carbon offsets its activities.

Code of conduct

Isavia has a code of conduct, which was updated in 2022. It covers all the company's activities, staff events and work-related travel. They apply to the staff, managers and boards of the companies within the group and are part of their employment contracts. The code of conduct for Isavia suppliers and subsidiaries is established in accordance with the ten criteria of the UN Global Compact. The company's suppliers are required to comply with the code of conduct as a minimum standard and that they make the same requirement to their suppliers. Isavia should be notified if a violation of the code is suspected. If requested, suppliers must be able to confirm that these codes of conduct are followed. The company's contracts contain provisions on the prohibition of artificial contracting, and stipulate that relationship must be the main rule in interaction between the staff and contracting vendor. This is done to ensure that all wage related payments, by whatever name they are called, are paid and that the provisions of wage contracts are followed.

Human resources

Isavia human resources policy is to create a workplace where employees show respect to each other and are honest with themselves and others. The company intends to be at the forefront as a workplace where equality and trust prevail. Efforts are being made to ensure equal opportunities for employees and the possibility to use their talents at work.

In 2022, the company's human resources and equality policies were combined into one to show that equality issues are part of all human resources-related issues at the company. Along with the policy, a new equality action plan was sent for approval by the Equal opportunities agency, which certified the plan for the next two years.

Isavia is committed to implementing, documenting and maintaining an equal pay system in accordance with the requirements of the equal pay standard ÍST 85 and obtaining equal pay certification in accordance with Act no. 150/2000 on equal status and equal rights of irrespective of gender. The company implemented an equal pay management system in 2018. In 2022, the company received re-certification after an audit carried out by BSI in Iceland. The equal pay management system is intended to ensure that all employees are paid equal wages and enjoy the same pay for the same or equally valuable work, regardless of gender. Along with the certification, a wage analysis was carried out, which revealed that there is no unexplained gender wage gap at Isavia.

Isavia has a response plan for bullying, gender-based and sexual harassment and violence (EKKO) in accordance with the relevant law. The plan covers all of Isavia establishments and subsidiaries and applies equally to staff, managers and contractors who work on behalf of the company or on behalf of other service providers at Isavia establishments. The response plan is based on Isavia policy that bullying, sexual harassment, gender-based harassment or other forms of violence are not tolerated under any circumstances. It is the company's goal to eradicate such behaviour through preventive actions in the form of education and through professional work processes.

Employees or others who have information about breaches of law or other reprehensible conduct in the group's operations must report this. Isavia ensures a certain level of protection for those who report offenses or other reprehensible conduct in the operation in accordance with Act no. 40/2020 on the protection of whistle-blowers. Notices to that effect can be submitted through the Isavia website.

Appendix II Non-financial disclosure

Risk management

Isavia adheres to a formal process of risk management to reduce and manage financial and non-financial risk of the company. The process seeks to map the main risk elements of the company and apply appropriate measures to mitigate such undesirable events. Work is carried out in accordance with comprehensive risk management based on Isavia overall strategy. The managers manage the company's risk in accordance with Isavia risk tolerance set by the board. Risk tolerance, i.e., the limits of acceptable deviations from goals are defined, among other things, in the laws and regulations that apply to the activity, national and international obligations, policy documents, processes, procedures and manuals. Isavia risk management is discussed in more detail in the company's corporate governance statement and annual report.

Annual report

The annual report of the Isavia group is issued according to the international standard of the Global Reporting Initiative, including its special provisions regarding airports. The report deals with the points of emphasis, goals, key criteria and achievements of Isavia in its quest for increased sustainability. The report deals with issues of the environment, the community and the economy in detail. Furthermore, Isavia presents an annual report of the company each year as a progress report to the UN Global Compact and Global Reporting Initiative. The report is now published for the eight time in this way. The reports are saved in the company's file system and published on an external website under the URL: https://www.isavia.is/fyrirtaekid/um-isavia/utgefid-efni/arsskyrslur/arsskyrslur.

EU Taxonomy reporting

EU Taxonomy regulation entered into force in Iceland on 1 June 2023 with Act. no. 25/2023 on Sustainable Finance Disclosure Regulation (SFDR) and taxonomy for sustainable investments.

As a result, the following delegated regulations of the EU Commission were implemented into Icelandic law. On the one hand, the delegated regulation of the EU Commission no. 2021/2139 on amendments to Regulation (EU) 2020/852 of the European Parliament and of the Council establishing technical assessment criteria to determine under which conditions economic activities are considered to significantly contribute to mitigation of climate change or adaptation to climate change and to determine whether these economic activities cause significant damage on any of the other general environmental objectives of the taxonomy regulation. However, the delegated regulation of the EU Commission 2021/2178 amending Regulation of the European Parliament and of the Council (EU) 2020/852 specifying the content and presentation of information to be disclosed by companies.

Companies are required to disclose the percentage of turnover, capital expenditure and operating expenses for the most recent operating period on eligible activities, that is, activities covered by the EU Taxonomy regulation. Similarly, the same key performance indicators must be disclosed for activities that meet all the criteria of the regulation and are considered to be aligned activities or environmentally sustainable.

It is considered that all business activities, which are not described in the delegated acts, are classified as not eligible. It should therefore be borne in mind that the EU taxonomy regulation is not in itself an exhaustive list of sustainable economic activities and related criteria, as many activities are currently not defined according to it, so far.

Definitions

The environmental objectives are six:

- climate change mitigation
- climate change adaptation
- sustainable use and protection of water and marine resources
- transition to a circular economy
- pollution prevention and control
- protection and restoration of biodiversity and ecosystems

Eligible economic activities are, according to the classification regulation, the economic activities described in the current delegated acts on the climate objectives, mitigation of climate change and adaptation to climate change, regardless of whether that economic activity meets any or all of the technical assessment criteria prescribed in these delegated acts.

For an activity to be considered aligned and thereby meet the requirements of the EU Taxonomy regulation to be environmentally sustainable, it must:

- The business activity must make a substantial contribution to one or more environmental goals.
- Does not cause significant harm to other environmental targets.
- Complies with minimum protective measures.

Appendix II Non-financial disclosure

Eligible business operations in accordance with the EU taxonomy regulation

Isavia carried out an analysis of the group's activities (investments and assets) in relation to the definition of the EU taxonomy regulation, of eligible and coordinated business operations according to both climate goals. Within the group are companies that operate airports, air traffic services, duty-free shops and software companies.

It can be said that for a given activity, three scenarios are possible: all related investments are coordinated; only part of the related investment is coordinated or no corresponding investment is coordinated. A similar argument can be used for properties.

When only a part of related activities is eligible or coordinated, the entity is then relied upon the data and that information from IT systems are sufficiently disaggregated and accessible so that the validity of the assessment can be proven. Isavia will look into this when improving the company's information systems and also to be prepared for the requirement that information published under the EU Taxonomy regulation will be taken out by a third party as announced within a few years.

After the analysis, the following categories of business operations were assessed as eligible:

- 5.3 Construction, extension and operation of waste water collection and treatment
- 6.3 Urban and suburban transport, road passenger transport
- 6.5 Transportation by motorbikes, passenger cars and light commercial vehicles
- 6.15 Infrastructure enabling low-carbon road transport and public transport
- 6.17 Low carbon airport infrastructure
- 7.1 Construction of new buildings
- 7.3 Installation, maintenance and repair of energy efficient equipment
- 7.7 Aquisition and ownership of buildings

Eligible activities covered by EU Taxonomy

Isavia assesses that it does not formally meet all of the minimum safeguards specified. Therefore, the company does not provide information on aligned business activities according to the taxonomy regulation.

Failure to fully implement the minimum safeguards does not have legal consequences as the taxonomy regulation is a reporting regulation and Isavia will work on improvements during the year to meet these measures.

During the analysis of the technical evaluation criteria of the activities that are classified as eligible, certain challenges were revealed for the company to be able to fulfil them correctly. For example, Iceland is exempt from regulation 2010/31/EU on the energy efficiency of buildings (EPBD), and therefore there is no energy classification of buildings or criteria for the primary energy demand of buildings in Iceland. As it is, it is therefore not possible to fulfil the technical evaluation criteria that apply to business activities under section 7.1 Construction of new buildings and 7.7 Acquisition and ownership of buildings, for example.

Minimum safeguards

As part of the minimum safeguards measures, there are various requirements for the implementation of procedures based, among other things, on the guidelines of the Organization for Economic Co-operation and Development (OECD) for multinational companies and the guiding principles of the United Nations on business and human rights, as well as eight fundamental conventions in the declaration of the International Labor Organization.

The fact that the required minimum safeguard is met is a prerequisite for business activities to be classified as environmentally sustainable and thus aligned with the taxonomy regulation. In order to implement and ensure minimum safeguards, Isavia has aligned itself with the final report on minimum safeguards from the Platform on Sustainable Finance from October 2022. The main focus of the report is on human rights, corruption and bribery, taxation and fair competition. When assessing compliance with minimum safeguards, it is assessed whether adequate processes are implemented for each of the above subjects to avoid negative impacts.

Isavia considers itself to meet the minimum safeguards requirements mentioned regarding corruption and bribery, taxation and fair competition in all respects. The procedure that the company has not fully implemented is a human rights due diligence process that is specifically specified in the OECD guidelines. It is worth noting that although Isavia has not implemented the due diligence steps as mentioned in the OECD guidelines, this does not mean that human rights are being violated, as the guidelines only address the procedural aspects of human rights due diligence. Isavia will continue as before to work on human rights and further improvements when it comes to minimum safeguards measures.

Appendix II Non-financial disclosure

Key performance indicators

The annual accounts of the Isavia Group are prepared in accordance with the International Financial Reporting Standards (IFRS), as they are approved at the end of 2023, changes to them and new interpretations and additional requirements in the Act on Annual Accounts, as stated in note 2 in the annual accounts. Calculations of key metrics are presented on a consolidated basis where internal transactions have been eliminated to avoid double counting. The following methodology was used to calculate the key metrics, turnover, capital expenditure and operating expenses.

Turnover

The group's classifiable income ratio was calculated as the portion of net income from goods and services related to classifiable business activities (numerator) divided by net income (denominator; the denominator corresponds to the group's income; see also the notes to the group, number 4 income).

Isavia earns income from products and services related to classifiable business activities. By far the largest item is rental income from housing, which falls under category 7.7 Acquisition and ownership of buildings. In addition, the company earns income from the operation of the sewage system, which falls under category 5.3 Construction, extension and operation of waste water collection and treatment. Finally, revenue is generated from charging stations that fall under category 6.15 Infrastructure enabling low-carbon road transport and public transport.

Capital expenditure

The EU taxonomy regulation defines key performance indictor where the capital expenditure entails additions to tangible and intangible assets during the financial year considered before depreciation, amortization, and any re-measurements, including those resulting from revaluations and impairments, for the relevant financial year and excluding fair value changes.

The largest part of the investment fees that are considered to be eligible can be attributed to the large-scale projects that take place at Keflavík Airport and fall under category 7.1 Construction of new buildings. Next, the company's purchases of vehicles that fall under category 6.5 Transportation with motorbikes, passenger cars and light commercial vehicles are listed. Installation of LED approach lights at Keflavík Airport falls under category 7.3 Installation, maintenance and repair of energy-efficient equipment. Finally, there are constructions for increasing the voltage, renewing and increasing the number of aircraft ground connections (Ground Power Unit) and the installation of electric charging stations for cars, all of which fall under category 6.17 Low carbon airport infrastructure.

Operational expenditure

The taxonomy regulation’s definition of operational expenditure is narrower than the general definition in accordance with IFRS which are used in the financial statements. Operational expenditure are direct non-capitalised costs that relate to research and development, building renovation measures, short-term leasing, maintenance and repair and any other direct expenditures relating to the day-to-day servicing of assets of property, plant, and equipment by the undertaking or third party to whom activities are outsourced, that are necessary to ensure the continued and effective functioning of such an asset.

To determine the key metrics for operating expenses, the classifiable operating expenses (numerator) according to the classification regulation are determined in proportion to the operating expenses (denominator).

The largest part of the eligible operation expenditures in accordance other EU taxonomy regulations s due to maintenance and repairs so that it is possible to ensure the efficient operation of assets. Do those operating expenses fall under category 7.7 Acquisition and ownership of buildings. The most extensive part of them is due to the cleaning of the terminal at Keflavík Airport, but there is also the maintenance of footbridges and ventilation systems. Isavia runs a workshop and pays a percentage of the operating fees there, on the one hand, for spare parts, tire changes and repairs to vehicles under category 6.5 Transport by motorbikes, passenger cars and light commercial vehicles, and on the other hand, for spare parts, tire changes and repairs to buses, which are used in passenger transport at the airport, under category 6.3 Urban and suburban transport, road passenger transport.

Tables showing key metrics follow.

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TURNOVER

Economic Activities (1)	Code (2)	Absolute turnover (3)	Proportion of Turnover (4)	Climate Change Mitigation (5)	Climate Change Adaptation (6)	Water (7)	Circular Economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate Change Mitigation (11)	Climate Change Adaptation (12)	Water (13)	Circular Economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum Safeguards (17)	Taxonomy aligned proportion of total turnover, 2023 (18)	Taxonomy aligned proportion of turnover, year N-1 (19)	Category (enabling activity) (20)	Category (transitional activity) (21)
		2023		Substantial Contribution Criteria						DNSH criteria ('Does Not Significantly Harm')										
		in thousands of ISK	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		**0**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**N**	**N**	**N**	**N**	**N**	**N**	**N**	**0%**	**-**	**0%**	**0%**
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Acquisition and ownership of buildings	7.7	3.965.204	8,8%																	
Construction, extension and operation of waste water collection and treatment	5.3	43.303	0,1%																	
Infrastructure enabling low-carbon road transport and public transport	6.15	2.179	0,0%																	
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		**4.010.687**	**8,9%**																	
Total (A.1+A.2)		**4.010.687**	**8,9%**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomy-non-eligible activities (B)		41.047.277	91,1%																	
Total (A+B)		45.057.963	100,0%																	

EU Taxonomy

CAPITAL EXPENDITURE

Economic Activities (1)	Code (2)	2023 Absolute CapEx (3)	Proportion of Turnover (4)	Substantial Contribution Criteria Climate Change Mitigation (5)	Climate Change Adaptation (6)	Water (7)	Circular Economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	DNSH criteria ('Does Not Significantly Harm') Climate Change Mitigation (11)	Climate Change Adaptation (12)	Water (13)	Circular Economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum Safeguards (17)	Taxonomy aligned proportion of total CapEx, 2023 (18)	Taxonomy aligned proportion of CapEx, year N-1 (19)	Category (enabling activity) (20)	Category (transitional activity) (21)
		in thousands of ISK	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		**0**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**N**	**N**	**N**	**N**	**N**	**N**	**N**	**0%**	**-**	**0%**	**0%**
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Construction of new buildings	7.1	9.288.432	56,0%																	
Transport by motorbikes, passenger cars and light commercial vehicles	6.5	164.810	1,0%																	
Installation, maintenance and repair of energy efficiency equipment	7.3	38.493	0,2%																	
Low carbon airport infrastructure	6.17	29.594	0,2%																	
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		**9.521.329**	**57,4%**																	
Total (A.1+A.2)		**9.521.329**	**57,4%**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Capex of Taxonomy-non-eligible activities (B)		7.063.717	42,6%																	
Total (A+B)		16.585.046	100,0%																	

EU Taxonomy

OPERATING EXPENDITURE

		2023		Substantial Contribution Criteria						DNSH criteria ('Does Not Significantly Harm')										
Economic Activities (1)	**Code (2)**	**Absolute CapEx (3)**	**Proportion of Turnover (4)**	**Climate Change Mitigation (5)**	**Climate Change Adaptation (6)**	**Water (7)**	**Circular Economy (8)**	**Pollution (9)**	**Biodiversity and ecosystems (10)**	**Climate Change Mitigation (11)**	**Climate Change Adaptation (12)**	**Water (13)**	**Circular Economy (14)**	**Pollution (15)**	**Biodiversity and ecosystems (16)**	**Minimum Safeguards (17)**	**Taxonomy aligned proportion of total OpEx, 2023 (18)**	**Taxonomy aligned proportion of OpEx, year N-1 (19)**	**Category (enabling activity) (20)**	**Category (transitional activity) (21)**
		in thousands of ISK	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		**0**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**N**	**N**	**N**	**N**	**N**	**N**	**N**	**0%**	**-**	**0%**	**0%**
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Acquisition and ownership of buildings	7.7	526.739	1,4%																	
Transport by motorbikes, passenger cars and light commercial vehicles	6.5	28.271	0,1%																	
Urban and suburban transport, road passenger transport	6.3	19.707	0,1%																	
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		**574.717**	1,6%																	
Total (A.1+A.2)		**574.717**	**1,6%**																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
OpEx of Taxonomy-non-eligible activities (B)		36.337.819	98,4%																	
Total (A+B)		36.912.536	100%																	