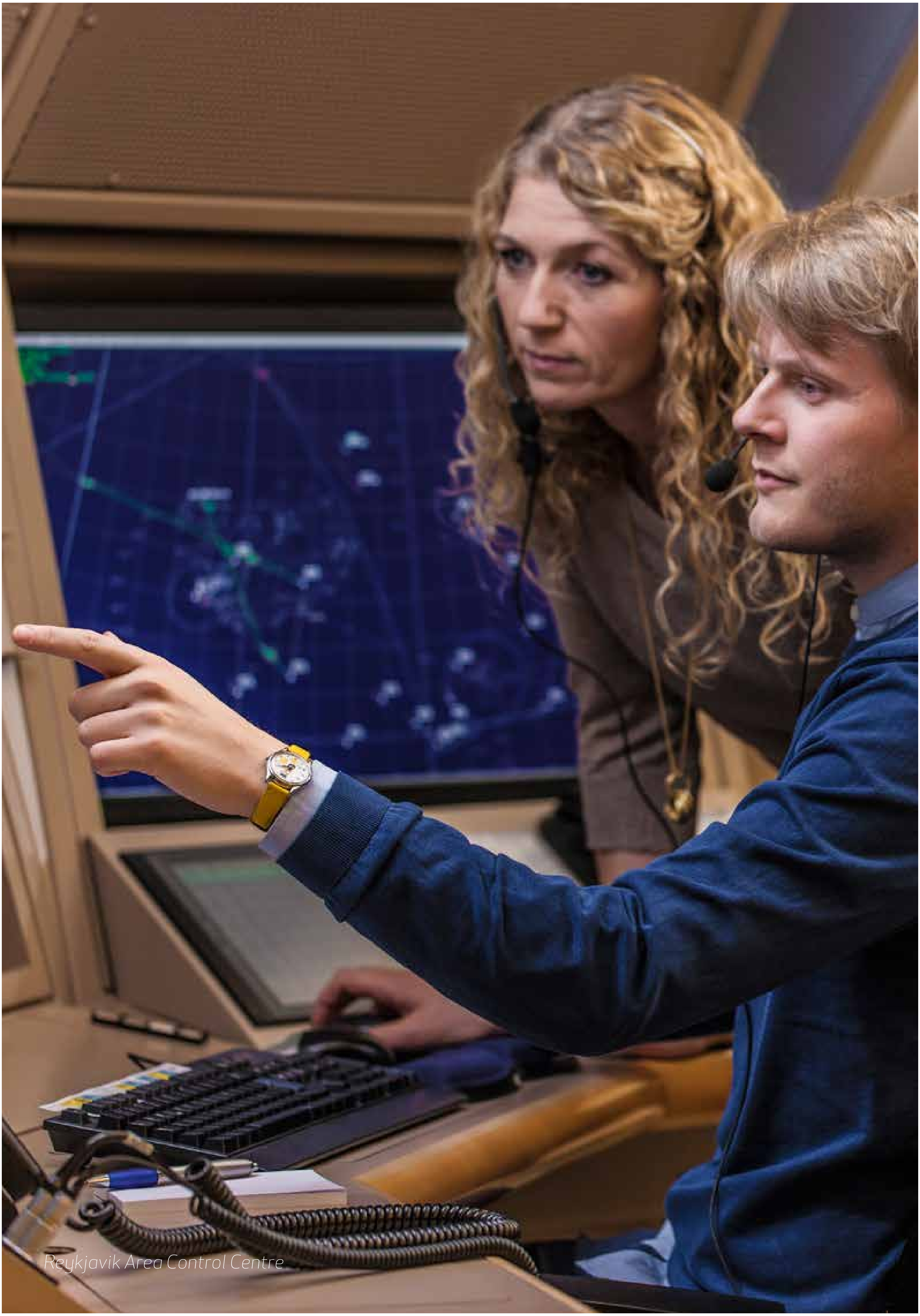
ANNUAL REPORT 2013

ISAVIA


Reykjavik Area Control Centre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The electronic version of this annual report is available at ***www.isavia.is/annualreport***

Keflavik International Airport

Egilsstadir Airport

CHAIRMAN'S STATEMENT

Isavia's Board of Directors, which was elected at the Annual General Meeting on 2 May 2013, consists of Arnbjörg Sveinsdóttir, Town Councillor and Deputy Member of Parliament, Ólöf Kristín Sveinsdóttir, retail manager, Jón Nordfjörd, chief executive, Ragnar Óskarsson, upper secondary school teacher, and Thórólfur Árnason, engineer.

The Alternate Directors elected were Hjörtur M. Gudbjartsson, Jóhanna Harpa Árnadóttir, Ólafur Sveinsson, Sigrún Pálsdóttir and Sigurbjörn Trausti Vilhjálmsson.

Re-elected were Mr Árnason as Chairman of the Board and Mr Óskarsson as Vice-Chairman.

The Board met 13 times during the year, with regular meetings held on the first Thursday of each month. All Alternate Directors were called to the December meeting to discuss the 2014 operating budget and to the meeting on 26. March 2014 to review and discuss the 2013 annual financial statements.

Most Board meetings were held at Isavia's offices at Reykjavik International Airport and Keflavik International Airport. The Board also met once at the Air/Ground Communications Centre in Reykjavik and once in the town of Akureyri in northern Iceland, in keeping with our policy to annually visit and hold meetings at the company's main operating locations around the country. In Akureyri, we met with the airport's staff and the District Manager for airports in North and East Iceland and familiarised ourselves with the airport's operations, infrastructure development and investments. At the Communications Centre in Reykjavik, we were informed on the Centre's activities by the Head of Department, Hallgrímur Sigurðsson.

2013 was another record-breaking year in passenger traffic at Keflavik International Airport, with passengers totalling approximately 2,750,000. This represents a 15.6% year-on-year increase, exceeding projections by 5.8%. The 2014 projections are for an additional 18% increase.

This massive growth in passenger volumes at Keflavik Airport and the Leif Eiriksson Air Terminal poses challenges in dealing with traffic at peak service hours. The solution is a delicate task involving phased investment in buildings, airport aprons and technical systems while at the same time optimising the use of existing facilities, which are unused for much of each 24-hour period. An important consideration here is that infrastructure development is cost-intensive and leads to higher operating expenses. The cost will be paid by the airport's users in the form of higher airport charges, in addition to which retail income from the terminal will play an important role.

To better manage the retail areas' development and growth, the Board decided to launch a pre-qualification procedure for retail and food-and-beverage outlets in the departures hall to open up the market, stimulate competition and increase services to passengers. The decision was also made to undertake major restructuring of services, which is scheduled for completion in spring 2015. The passenger mix at Keflavik Airport has changed significantly with the growing influx of foreign passengers, making it important for us to select the right service partners. We enlisted the assistance of well-respected foreign consultants and designers specialised in the operation and organisation of in-terminal retail activities, who submitted excellent proposals. The first presentation of the pre-qualification process took place at an open meeting on 19 March 2014.

Our investment plans for Keflavik Airport include expanding the terminal building and increasing baggage handling system productivity and the number of aircraft stands from 14 to a total of 19-20 by 2016, which will boost throughput at peak hours by 40%. The estimated cost of this investment is ISK 6-7 billion, which will be spread over the years 2013 to 2016.

A new seasonal tariff for Keflavik Airport will take effect on 1 November 2014 and is designed to better co-ordinate our fees with services provided and raise the terminal's utilisation rate outside the traditional tourist season. The cost of using the airport will be lower in winter than in summer, thereby supporting efforts to promote off-season tourism, such as the Inspired by Iceland marketing campaign. Airport charges will be based solely on services provided and a departure tax will be collected from all passengers passing through the airport, whether leaving the country or transiting.

The situation regarding Iceland's domestic airport system, which is operated by Isavia on a contractor basis for the Icelandic government under a service agreement with the Ministry of the Interior, presents us with particular challenges that are a cause for concern for all those involved. Financial resources allocated to necessary maintenance and investment in the system are limited, or barely sufficient for its day-to-day operations. Moreover, the future of Reykjavik Airport - and thereby of the domestic aviation system in its current form - is subject to great uncertainty due to local planning issues, which limits our own planning horizon to six years. A new socio-economic analysis of Iceland's domestic airports shows that only a very small number of them are macroeconomically cost-effective and that these are the largest ones. I hope that this analysis will prove useful for the formulation of a government policy on the future of the domestic airport system. Such a policy is clearly needed to prioritise the use of public money during these challenging fiscal times.

The future of Reykjavik Airport has long been a bone of contention, a regular criticism being a lack of air transport services for the regions and rural areas. Stakeholders and interested parties have repeatedly attempted to engage Isavia in this debate, in which the company has no part and which is a matter of government policy. In this context, it is fundamental that reporting on the company's stance be accurate and that it receives support from the government to carry out the role entrusted to it, which is to operate airports and air navigation services in a responsible and cost-effective manner in accordance with government decisions and appropriations. Needless to say, the Board and Isavia's employees are always happy to provide expert advice on the technical, economic and safety aspects of air transport services in Iceland.

Our international air navigation services have also been growing, with air traffic in our control area up by 7.7% in 2013. The largest part of this traffic is overflights managed by Isavia under an agreement with the International Civil Aviation Organisation (ICAO). Part of the agreement extends to air navigation services over Greenland and the Faroe Islands, which are currently reviewing the future of this arrangement. It is important to exercise vigilance over the future of this service, which is recognised by its users for quality and cost-efficiency. A reduction of the control area would entail inefficiencies and increased costs for users.

Preparations are underway to add an extension to our Area Control Centre building at Reykjavik Airport and relocate the Air/Ground Communications Centre under the same roof, with construction scheduled to commence in autumn 2014. The cost of this project will be approximately ISK 1 billion, which will be spread over the next two years and paid by the users on a cost basis. Enlarged and improved premises will no doubt strengthen the Area Control Centre and its time-honoured services to the growing air traffic over the North Atlantic.

We delivered a strong financial performance in 2013. The group's total income was ISK 19.8 billion. Earnings before interest, taxes, depreciation, and amortisation (EBITDA) were about ISK 4.4 billion, or 22.3% of income, and after-tax profit was approximately ISK 3.2 billion. Cash generation was sufficient to pay down long-term debts and to fund the infrastructure projects that the company found necessary to launch last year, leaving a cash position of approximately ISK 2.7 billion at year-end. The company is thus in a strong financial position and has considerable investment capacity. However, the large scale of our planned projects will require substantial borrowing. The Board has already approved borrowing of up to ISK 5 billion for productivity-enhancing development at Keflavik Airport, the first time that this is needed since 2007. Preparation for this borrowing has begun, with financial companies in Iceland and overseas already expressing interest in the project.

Isavia plays a key role in the current upsurge in Iceland's tourism industry and is making a major contribution to enabling the country to receive a constantly growing influx of foreign tourists. The period ahead is one of large-scale investment and infrastructure development at Keflavik Airport, which Isavia will carry through with vigour and commitment whilst keeping efficiency, security and safety as top priorities.

I would like to thank the Board, the Managing Director, Björn Óli Hauksson, and the entire staff at Isavia for their excellent work and co-operation over the past operating year.

On behalf of the Board of Directors of Isavia,
Thórólfur Árnason, Chairman of the Board

Isavia's Board of Directors and Managing Director, from left to right: Ragnar Óskarsson, Jón Nordfjörd, Arnbjörg Sveinsdóttir, Björn Óli Hauksson, Ólöf Kristín Sveinsdóttir and Thórólfur Árnason

Runway friction measurement at Reykjavik Airport

DIVISIONS

Our activities are divided into four core segments: Air Navigation Services; Airport & Infrastructure; Keflavik International Airport; and the Leif Eiriksson Air Terminal. We also have four support divisions: Development & Administration; Human Resources & Performance; Finance; and Standards & Quality Management. The heads of the core and support divisions together with the Managing Director, Björn Óli Hauksson, comprise the Executive Committee.

Air Navigation Services provides air traffic control and other air navigation services for domestic and international flights, covering a large area over the North Atlantic Ocean. The Iceland Air Traffic Control Area is among the largest in the world, totalling approximately 5.4 million square kilometres.

Airport & Infrastructure operates and maintains all government-owned airports and landing strips in Iceland except for Keflavik International Airport, including runways and other infrastructure, airfield lighting and machinery as well as being responsible for aviation security.

The division's infrastructure service provides specialised construction and maintenance support to other divisions.

Keflavik International Airport handles the day-to-day operation, monitoring and maintenance of aircraft operating areas and other airport infrastructure, fire and rescue services, vehicle and machinery maintenance, the airport's visual navigation equipment and jet aircraft arresting gear, bird and animal control, apron management, slot allocation and airport cleaning.

The Leif Eiriksson Air Terminal is responsible for the operation, maintenance and development of the Keflavik International Airport terminal, including shops offering tax-free goods in the airport area, aviation security, support to service partners in the terminal and services relating to airline operations, as well as other activities necessary within the airport security-restricted area.

Development & Administration is a support unit to the Board of Directors, Managing Director and the operating divisions. It is responsible for policy formulation and co-ordination of the operating divisions, including marketing and corporate communications, strategic and business development, legal affairs, corporate governance, government relations, planning, international obligations, the co-ordination of aviation security and airports and various administrative work relating to the boards of directors of subsidiaries.

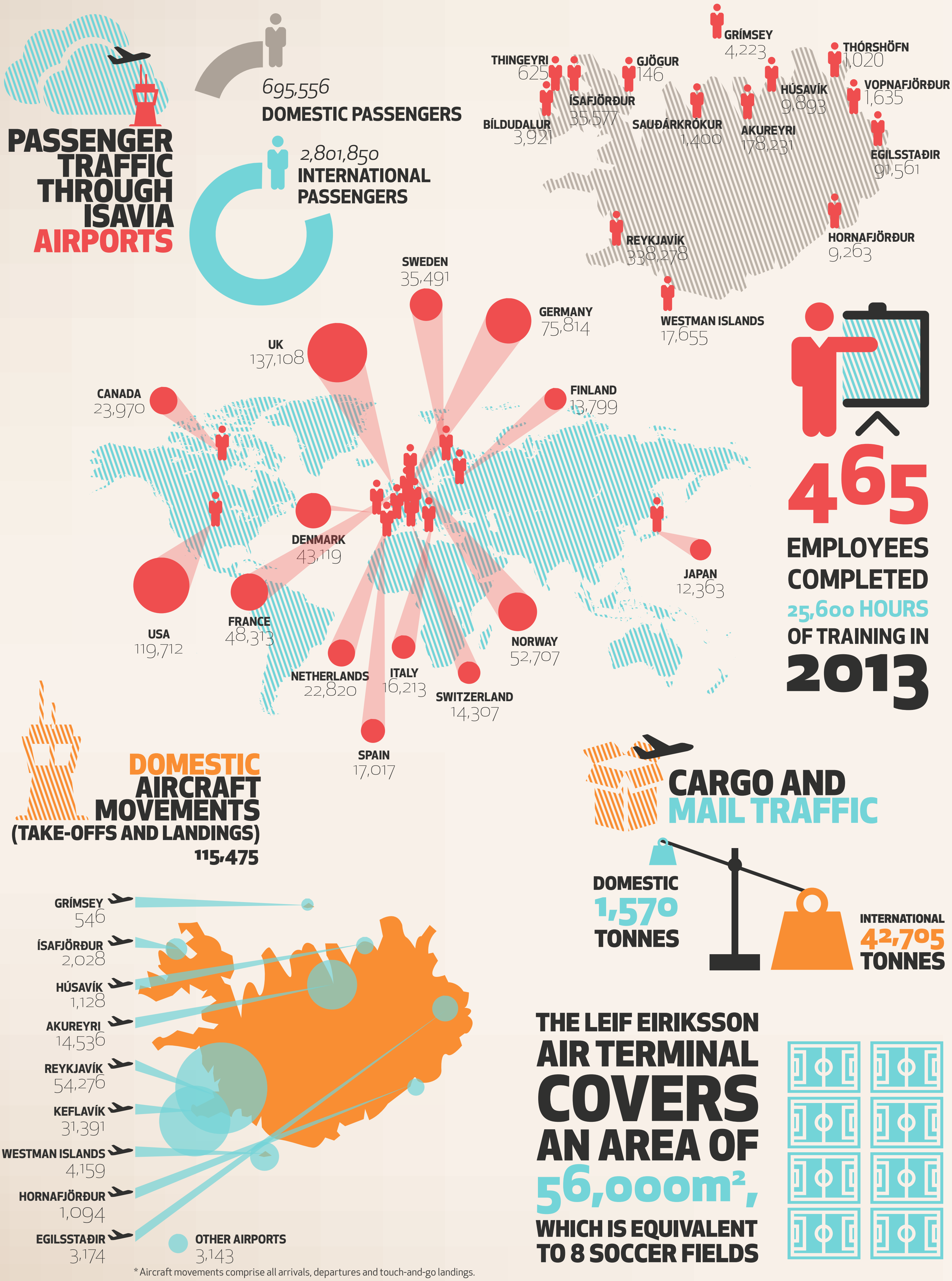
Human Resources & Performance manages HR functions, including professional development, training and education, occupational safety and health, payroll processing, wage agreements, internal communications, strategy implementation and performance evaluation.

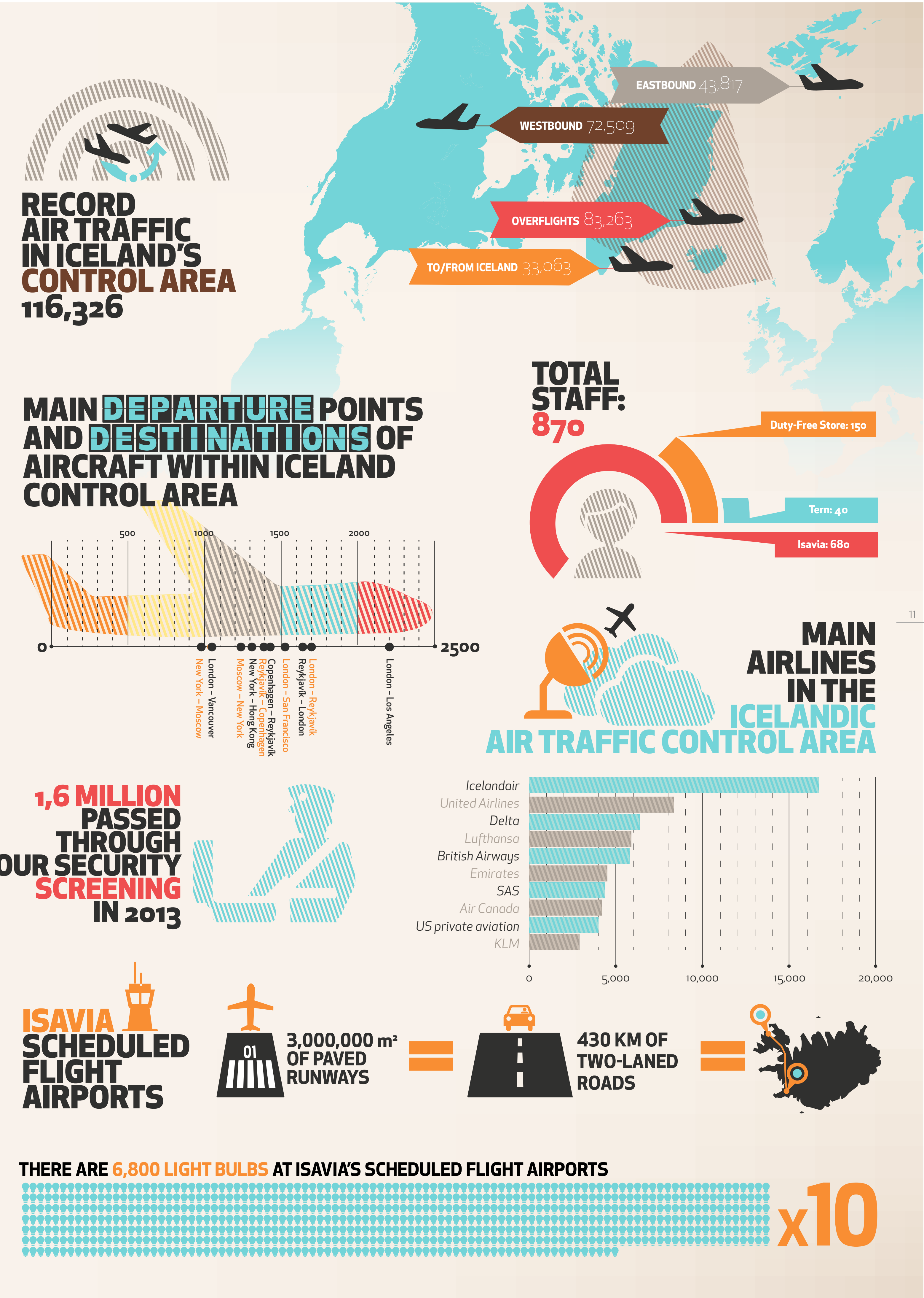
The Finance division operates across all the operating divisions, providing them a wide range of administrative, accounting, treasury management and funding support as well as purchasing and IT services.

Standards & Quality Management has charge of overall planning and co-ordination of the company's safety and quality policies as well as its environmental programme.

Isavia's Executive Committee, from left to right: Elín Árnadóttir, Hlynur Sigurdsson, Thröstur Söring, Sveinbjörn Indridason, Helga R. Eyjólfsdóttir, Haukur Hauksson, Björn Óli Hauksson, Managing Director, Sigurdur Ólafsson and Ásgeir Pálsson

Highlights of 2013



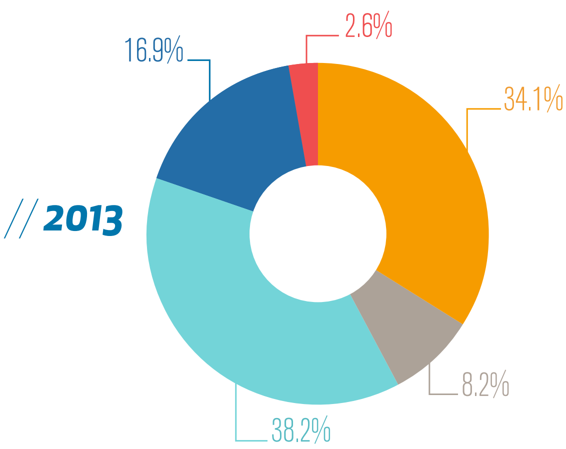

EASTBOUND 43,817
WESTBOUND 72,509
OVERFLIGHTS 83,263
TO/FROM ICELAND 33,063
RECORD AIR TRAFFIC IN ICELAND'S CONTROL AREA
116,326
TOTAL STAFF:
870
Duty-Free Store: 150
Tern: 40
Isavia: 680
MAIN DEPARTURE POINTS AND DESTINATIONS OF AIRCRAFT WITHIN ICELAND CONTROL AREA
0
500
1000
1500
2000
2500
New York – Moscow
London – Vancouver
Moscow – New York
New York – Hong Kong
Reykjavik – Copenhagen
Copenhagen – Reykjavik
London – San Francisco
Reykjavik – London
London – Reykjavik
London – Los Angeles
MAIN AIRLINES IN THE ICELANDIC AIR TRAFFIC CONTROL AREA
Icelandair
United Airlines
Delta
Lufthansa
British Airways
Emirates
SAS
Air Canada
US private aviation
KLM
0
5,000
10,000
15,000
20,000
1,6 MILLION PASSED THROUGH OUR SECURITY SCREENING IN 2013
ISAVIA SCHEDULED FLIGHT AIRPORTS
01
3,000,000 m² OF PAVED RUNWAYS
=
430 KM OF TWO-LANED ROADS
=
THERE ARE 6,800 LIGHT BULBS AT ISAVIA'S SCHEDULED FLIGHT AIRPORTS
x10

FINANCIAL HIGHLIGHTS

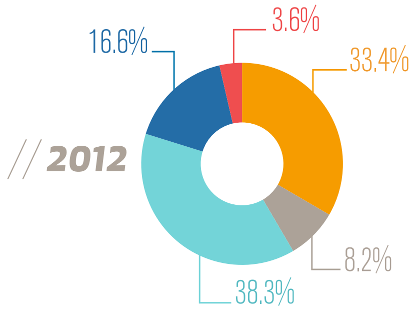
FROM THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2013	2012	2011	2010
Income	19,810	18,397	16,511	14,136
EBITDA	4,470	3,823	3,653	3,045
EBIT	2,818	2,396	2,302	1,723
Financial income/expenses	1,200	-1,465	-1,542	843
Pre-tax profit	4,018	932	760	2,567
Operating profit	3,217	738	604	2,125
FROM THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
Property, plant and equipment	23,179	21,784	21,615	22,017
Assets	34,511	33,390	32,520	32,069
Equity	14,864	11,647	10,917	10,302
Interest-bearing liabilities	14,609	17,397	17,728	18,348
Current ratio	1.24	1.26	1.21	1.01
FROM THE CONSOLIDATED STATEMENT OF CASH FLOWS				
Operating activities	4,032	3,535	3,545	1,590
Investing activities	-2,966	-1,730	-725	-715
Financing activities	-1,324	-1,362	-1,721	-1,247
Cash and cash equivalents at end of period	2,730	3,026	2,609	1,506
FINANCIAL RATIOS				
Contribution margin	23%	21%	22%	22%
Profit margin on operating revenue	16%	4%	4%	15%
Rate of return on assets	0.58	0.56	0.51	0.43
Return on equity	24%	7%	6%	23%
Earnings per share	0.58	0.13	0.11	0.38
Equity ratio	43%	35%	34%	32%
Average number of positions	848	790	729	707

Amounts in ISK millions

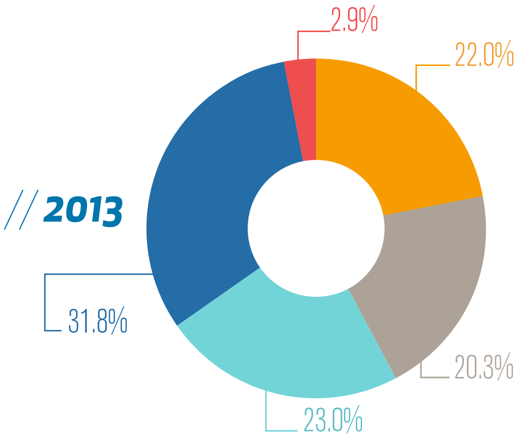
Total Income



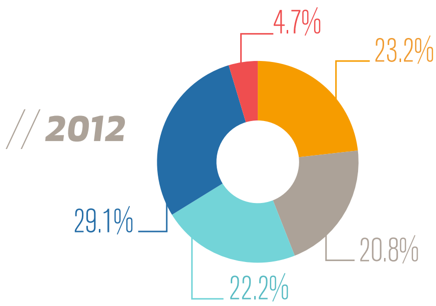
// Airport services // Facilities // Sales
// International air navigation services
// Other services



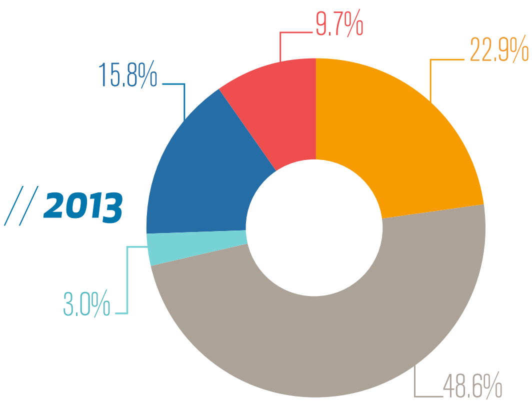
Airport Services



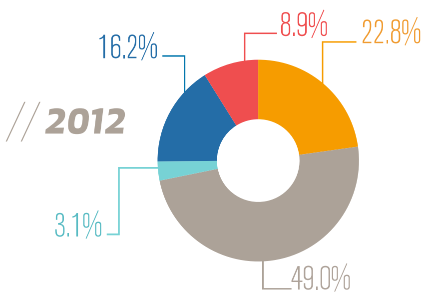
// Government service agreement // Landing fees
// Airport security fees // Passenger fees // Other fees



Operating Cost



// Sales cost // Wages // Administration
// Other operating costs // Depreciation



Snapshots of our activities in **2013**

Together with our subsidiary Duty-Free Store at Keflavik Airport, we hosted a booth at the Mid-Atlantic Tradeshow to promote our offerings to travel industry professionals from Europe and North America.

Together with our subsidiary Tern, we took part for the first time in the annual Student Career Days, an excellent opportunity to meet with university students and inform them about our activities.

We invited the general public to join in Egilsstadir Airport's 50th anniversary celebrations. A large number of visitors took a behind-the-scenes look at the airport and learnt about its activities.

Four air crash exercises were held in the year in the towns of Akureyri, Thórshöfn, Húsavík and Ísafjördur. We regularly carry out drills at Iceland's airports, which are the most extensive exercises in the country in dealing with emergencies involving large numbers of casualties.

Our Area Control Centre obtained an ISO 9001 quality certification in the year, providing our customers with further assurance of the quality and consistency of our services.

We won the Icelandic Advertising Award for the year's Best Direct Mail Piece – a sample of ash from the Eyjafjallajökull volcano enclosed in innovative packaging.

Passenger traffic grew at a hefty rate in the year and new airlines and destinations were added. A tradition has developed of baking a cake to celebrate each new air route. This meant a lot of baking in the year!

Two new passenger buses entered service at Keflavik International Airport. The buses will transport passengers to and from remote parking spaces outside the terminal.

Unusually heavy winter snowfall required a great deal of snow removal at airports around the country.

Numerous search and rescue teams around Iceland received equipment purchased with grants from the Isavia Support Fund. The Icelandic Association for Search and Rescue (ICE-SAR) bestowed its Compass Award on us for the support.

The annual Nordic Airport Meeting was held in the town of Akureyri in northern Iceland.

More snapshots of our activities in 2013 are available at **www.isavia.is/annualreport**

OPERATIONS AND PERFORMANCE

The Isavia group's total operating revenues grew from ISK 18,397 million in 2012 to ISK 19,810 million in 2013. The greatest increase was in airport services, income from which was up 13.8%. Retail income was up 7.7% and income from air navigation services was up 5.3%. Income from the service agreement with the Ministry of the Interior rose by 4%.

Passenger traffic through Keflavik International Airport grew by 15.6%, or 371,433 passengers, delivering an increase in passenger income, retail income and property income. The total passenger traffic in 2013 was 2,751,743 passengers. At other Isavia-operated airports, the number of departing passengers on scheduled flights declined by 8.5%.

Earnings before interest and taxes (EBIT) for 2013 amounted to ISK 2,818 million, up from ISK 2,396 million in the preceding year. Due to the group's expanded activities, the average number of staff positions grew by 7.3% and had reached 848 at year-end 2013. Operating expenses increased in line with our projections.

In 2011, an alcohol and tobacco tax was introduced for products sold in the Duty-Free Arrivals Store. In 2013, our subsidiary Duty Free Iceland generated ISK 364 million in alcohol and tobacco tax revenue for the State Treasury, bringing the total since the year 2011 to ISK 952 million.

The total comprehensive income for 2013 was ISK 3,217 million, up by ISK 2,479 million year-on-year. The largest part of this difference was due to an exchange rate gain on long-term liabilities, with income from financial assets and financial liabilities up by ISK 2,528 million between 2012 and 2013.

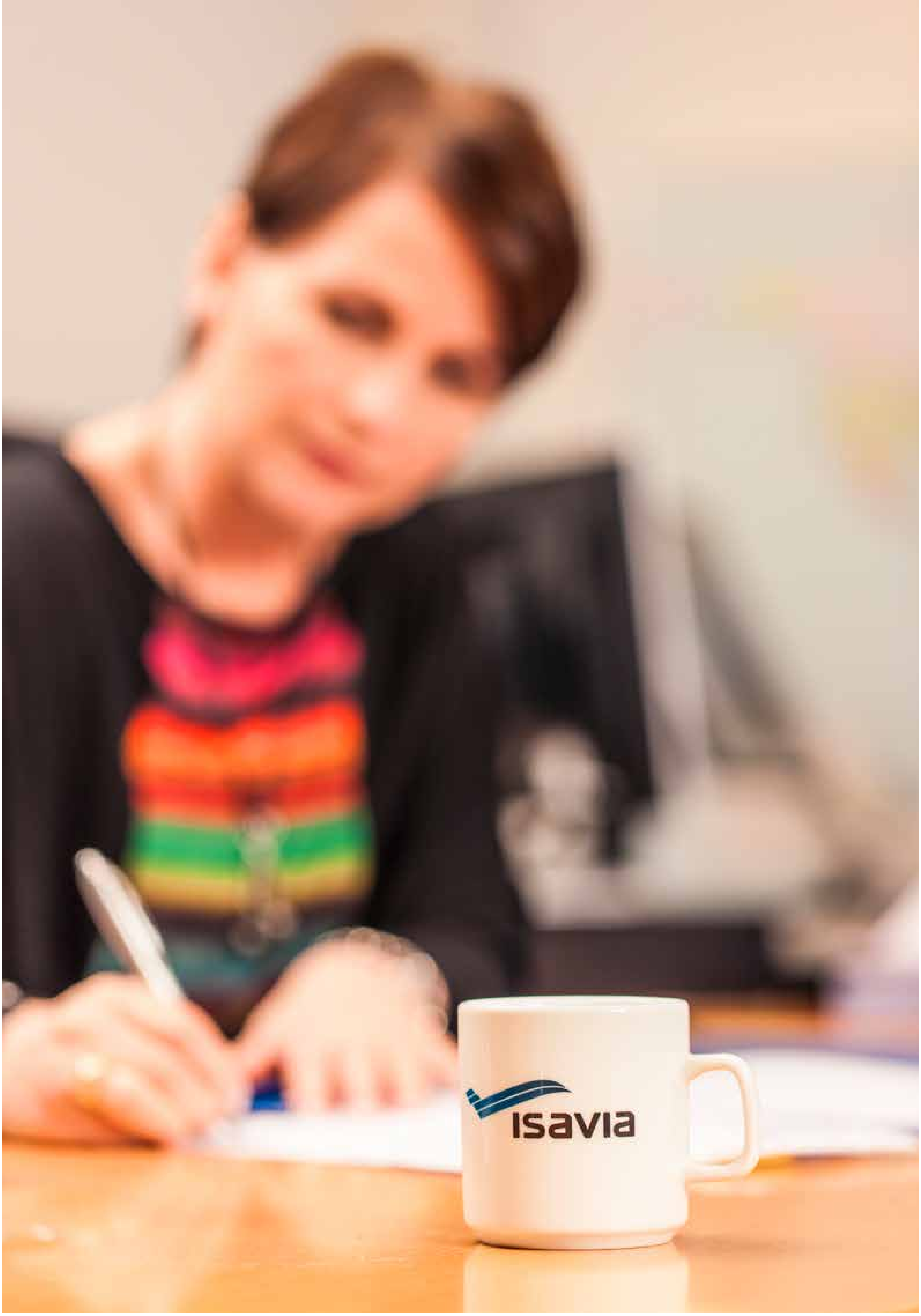
The Isavia group's total assets stood at ISK 34,511 million at year-end 2013, of which property, plant and equipment and intangible assets accounted for ISK 29,036 million. Interest-bearing liabilities decreased by ISK 2,788 million from 2012, of which ISK 1,322 million was due to repayments. The equity ratio stood at 43.1% at year-end 2013, up from 34.9% in the previous year. This compares with an equity ratio of 24.6% when the company was founded in 2010.

Net cash generated from operating activities was ISK 4,032 million, up by ISK 496 million year-on-year. Investment in property, plant and equipment grew by ISK 1,445 million and was ISK 2,787 million in 2013.

BREAKDOWN OF INCOME

	2013	2012	change 2013/2012
Air navigation services	3,793	3,602	5.3%
Airport services	6,453	5,671	13.8%
Retail income	7,568	7,026	7.7%
Service agreement with the Ministry of the Interior	1,486	1,426	4.2%
Other income	510	671	-24.0%

* Amounts in ISK millions


ISAVIA

INDEPENDENT AUDITOR'S REPORT INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF ISAVIA LTD.

We have audited the accompanying Consolidated Financial Statements of Isavia Ltd., which comprise the Statement of the Board of Directors, Statement of Financial Position as at December 31st 2013. Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Board of Directors and Managing Director are responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards, and for such internal control as Managing Director and the Board of Directors determine is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements.

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

OPINION

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of Isavia Ltd. as at December 31st 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as approved by the European Union.

Reykjavík, March 26, 2014

Deloitte Ltd.

Anna Birgitta Geirfinnsdóttir
State Authorized Public Accountant

Gudmundur Kjartansson
State Authorized Public Accountant

STATEMENT BY THE BOARD OF DIRECTORS AND MANAGING DIRECTOR

Isavia Ltd. is a government owned private limited company and complies with the Icelandic limited companies law No. 2/1995. The company's domicile and venue is Reykjavik Airport. Isavia Ltd. manages the operation and development of all Icelandic airports and manages air traffic in the Reykjavik and Sondrestrom Flight Information Regions, which consist of 5.4 million square kilometers. One of Isavia's roles is to ensure that aviation safety is in accordance with recognized safety standards and procedures.

The Consolidated Financial Statements for the year 2013 is prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

According to the Consolidated Statements of Comprehensive Income, the operating revenues of the Company amounted to ISK 19,810 million. Total comprehensive income for the year amounted to ISK 3,217 million. According to the Consolidated Statements of Financial Position, assets amount to ISK 34,511 million, the year-end book value of equity is ISK 14,864 million and the Company's equity ratio is 43.07%. The number of full-time staff equivalents throughout the year are 848.

At year-end, there was one shareholder in the Company, the Treasury of Iceland, which was shareholder when the Company was established.

It is the opinion of the Board of Directors and the Managing Director of Isavia Ltd. that the accounting policies used are appropriate and that these Consolidated Financial Statements present all the information necessary to give a true and fair view of the company's assets and liabilities, financial position and operating performance, as well as describing the principal risk and uncertainty factors faced by the Company.

The Board of Directors and the Managing Director hereby confirm the Consolidated Financial Statements for the year 2013.

Reykjavík, March 26, 2014

Board of Directors

Þórólfur Árnason Chairman of the Board

Arnbjörg Sveinsdóttir

Ragnar Óskarsson

Jón Norðfjörð

Ólöf Kristín Sveinsdóttir

Managing director

Björn Óli Hauksson

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME 2013

		Consolidation	
	Notes	2013	2012
Operating revenues	4	19,810,467	18,396,853
Cost of goods sold		(3,884,242)	(3,645,670)
Salaries and related expenses	5	(8,259,347)	(7,844,294)
Administrative expenses		(515,727)	(489,968)
Other operating expenses		(2,681,532)	(2,594,122)
Depreciation and amortization	8.9	(1,651,998)	(1,426,327)
Operating profit		2,817,621	2,396,473
Financial income	6	245,863	221,482
Financial expenses	6	(618,355)	(730,672)
Net gain (loss) arising on financial assets and liabilities	6	1,572,715	(955,030)
Profit before taxes		4,017,844	932,253
Income tax	7	(801,335)	(194,306)
Total comprehensive income for the year		3,216,509	737,947

All amounts are in thousands of ISK

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets	Notes	Consolidation 31.12.2013	Consolidation 01.01.2013
Non-current assets			
Property, plant and equipment	8	23,178,755	21,784,112
Intangible assets	9	5,857,212	5,885,777
Bonds and other long term assets	11	345,993	402,972
		29,381,960	28,072,861
Current assets			
Inventories	12	451,431	521,164
Accounts receivables	13	1,303,464	1,262,148
Government treasury		0	42,624
Current maturities of long term assets	13	59,584	69,376
Other receivables	13	584,977	396,221
Bank balances and cash	13	2,730,031	3,025,735
		5,129,487	5,317,268
Total assets		34,511,446	33,390,129

Equity and liabilities

Equity			
Share capital	14	5,589,063	5,589,063
Statutory reserves		2,483,798	2,483,798
Revaluation reserves		49,829	51,120
Retained earnings		6,741,016	3,523,216
Total equity		14,863,706	11,647,198
Non-current liabilities			
Loans from credit institutions	15	14,609,162	17,394,991
Obligations under finance leases	16	0	2,152
Deferred tax liabilities	18	900,350	114,139
		15,509,512	17,511,281
Current liabilities			
Accounts payable	19	1,389,854	1,271,036
Government treasury		16,633	0
Current maturities of non-current liabilities	19	1,279,055	1,409,855
Current tax liabilities	7	15,124	36,400
Other current liabilities	19	1,437,561	1,514,360
		4,138,228	4,231,650
Liabilities		19,647,740	21,742,931
Total equity and liabilities		34,511,446	33,390,129

All amounts are in thousands of ISK

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Statutory reserves	Revaluation reserves	Retained earnings	Non-controlling interests	Total Equity
Opening balance at 1 January 2012	5,589,063	2,483,798	52,466	2,783,924	7,435	10,916,686
	5,589,063	2,483,798	52,466	2,783,924	7,435	10,916,686
Transfer to retained earnings	0	0	(1,345)	1,345	0	0
Additional non-controlling interests	0	0	0	0	(7,435)	(7,435)
Comprehensive income	0	0	0	737,947	0	737,947
Balance at 31 December 2012	5,589,063	2,483,798	51,120	3,523,216	0	11,647,198
Opening balance at 1 January 2013	5,589,063	2,483,798	51,120	3,523,216	0	11,647,198
Transfer to retained earnings	0	0	(1,291)	1,291	0	0
Comprehensive income	0	0	0	3,216,509	0	3,216,509
Balance at 31 December 2013	5,589,063	2,483,798	49,829	6,741,016	0	14,863,706

No dividends were paid to shareholders for the year. All shares have been fully paid.

All amounts are in thousands of ISK

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Consolidation 2013	2012
Cash flows from operating activities			
Operating profit		2,817,621	2,396,473
Depreciation and amortization	8.9	1,651,998	1,426,327
Long term assets expensed	11	25,867	54,409
Gain on disposal of assets		(3,791)	0
Operating cash flow before transfer to working capital		4,491,696	3,877,208
Changes in inventories	12	69,919	(121,752)
Changes in operating assets		(186,103)	(130,242)
Changes in operating liabilities		87,872	304,566
Cash generated from operations		4,463,384	3,929,780
Interest earned		262,551	370,890
Finance costs		(657,710)	(749,816)
Income taxes paid		(36,400)	(15,520)
Net cash generated from operating activities		4,031,825	3,535,334
Investing activities			
Purchases of property, plant and equipment	8	(2,787,056)	(1,341,848)
Purchases of intangible assets	9	(227,230)	(53,092)
Capitalized development cost		0	(11,100)
Purchases of bonds		0	(322,378)
Installments on bonds	11	48,695	18,883
Investments held to maturity		0	(20,000)
		(2,965,591)	(1,729,534)
Financing activities			
Repayments of borrowings	15	(1,322,205)	(1,358,888)
Repayments of obligations under finance leases	16	(2,260)	(2,849)
		(1,324,465)	(1,361,737)
Net change in cash and cash equivalents		(258,230)	444,063
Cash and cash equivalents at the beginning of the year		3,025,735	2,608,985
Effect of foreign exchange rates		(37,474)	(27,313)
Cash and cash equivalents at the end of the year		2,730,031	3,025,735

All amounts are in thousands of ISK

1. General information

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

Isavia Ltd. is the national operator of all airports and air navigation services in Iceland that cover approximately 5 million square kilometers. The company ensures aviation safety and airport security in accordance with recognized international standards and operating licenses issued and supervised by the Icelandic Civil Aviation Authority.

The Consolidated Financial Statements of Isavia Ltd. consist of the Parent company and its subsidiaries. Companies within the consolidation are in addition to Isavia Ltd., Duty Free Store Ltd. and Tern Systems Ltd.

2. Summary of Significant Accounting Policies

Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the European Union by the end of the year 2013, new and revised. It is the opinion of the Management that application of new and revised IFRS has not material impact on the financial statements. The Consolidated Financial Statements have not implemented new and revised IFRS in issue but not yet effective.

Basis of preparation

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

The principal accounting policies are set out below.

Basis of consolidation

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

The Consolidated Financial Statements have been prepared using the purchase method. When ownership in subsidiaries is less than 100%, the non-controlling interest in the subsidiaries profit or loss and stockholders equity at end of period are identified separately.

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

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

Risk management

The Company's Board of Directors has an overall plan towards risk management. The Company has no interest rate or currency swap contracts outstanding at year-end.

2. Summary of Significant Accounting Policies (continued)

Revenue recognition

Revenues are recognised when earned as required by International Financial Reporting Standards.

Interest income is accrued over time, by reference to the principal outstanding and at the applicable interest rate.

Construction contracts

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

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

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

Leasing

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

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

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

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

Income tax

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

Property, plant and equipment

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

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

The depreciable amount of an asset is allocated on a straight-line basis over its useful life, less residual value. The depreciation charge for each period is recognised as an expense. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

Intangible assets

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

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

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

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

Impairment

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

Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

2. Summary of Significant Accounting Policies (continued)

Inventories

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

Provisions

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

Provisions for product liabilities are booked at the date of sale on the relevant goods and revalued by Management in accordance to expected payout which the provisions could entail.

Financial assets

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss' (FVTPL), ‘held-to-maturity' investments, ‘available-for-sale' (AFS) financial assets and ‘loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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.

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

Investments held to maturity

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2. Summary of Significant Accounting Policies (continued)

Financial assets

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for impairment at the end of each reporting period to evaluate if there has been an impairment to the asset. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset has been affected. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities

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

Financial liabilities at FVTPL

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

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

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

Other financial liabilities

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

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Accounting judgements are preferably in estimated useful life of assets and in write-downs of receivables and inventories, as described at note no. 8, 9, 12 and 13.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. Revenues

The consolidated composition of revenues, is specified as follows	2013	2012
Revenue from sales	7,568,359	7,039,031
Revenue from services	10,619,393	9,856,979
Revenue from long term assets	1,622,715	1,500,843
	19,810,467	18,396,853

All amounts are in thousands of ISK

5. Salaries and related expenses

	2013	2012
Salaries	6,414,282	5,868,979
Pension fund	785,515	706,679
Payroll taxes	549,674	507,743
Salary-related expenses	77,106	113,123
Pension and vacation pay obligation	139,151	396,397
Capitalized employment expenses	(10,254)	(13,466)
Other employee expenses	303,873	263,284
	8,259,347	7,842,738
Average number of employees	848	790

Additional payments because of pension fund obligations is explained in note no. 17. The Company´s total management salaries and benefits for the year 2013 was ISK 70.0 million compared to ISK 68.1 million for the year 2012. The Company´s CEO and Managing director of Duty Free Store Ltd. and Tern Systems Ltd. salaries is decided by the negotiation committee.

6. Financial income and expenses

Financial income

	2013	2012
Interest on bank deposits	115,002	89,931
Interest revenue on investments held to maturity	29,851	16,186
Other interest revenue	101,010	115,365
	245,863	221,482

Financial expenses

	2013	2012
Interest expense and indexation	(557,987)	(681,058)
Debt collection fee	(58,423)	(48,076)
Interest on late payments	(1,944)	(1,538)
	(618,355)	(730,672)

Net gain (loss) from financial assets and liabilities

	2013	2012
Net exchange rate differences	1,572,715	(955,030)
	1,572,715	(955,030)

7. Income tax

Income tax has been calculated and recorded in the Financial Statements, the amount charged in the Income Statement is ISK 801.3 million. Income tax payable in the year 2014 is ISK 15.1 million.

The effective tax rate is specified as follows:

	2013		2012	
	Amount	%	Amount	%
Profit before taxes	4,017,844		932,253	
Tax rate	(803,569)	20.0%	(186,451)	20.0%
Other items	2,234	-0.8%	(7,855)	-0.5%
Income tax acc. to Statement of Comp. Income	(801,335)	-20.8%	(194,306)	-20.5%

All amounts are in thousands of ISK

8. Property, plant and equipment

	Buildings and artwork	Loading bridges and car parks	Fixtures and machinery	Other assets	Total
Cost					
Balance at 1 January 2013	19,717,560	2,485,252	2,357,439	5,307,202	29,867,453
Revaluation			(36,388)	0	(36,388)
Additions	1,134,486	490,919	313,840	863,325	2,802,570
Disposals	0	0	0	(115,637)	(115,637)
Balance at 31 December 2013	20,852,046	2,976,171	2,634,891	6,054,890	32,517,998
Accumulated depreciation					
Balance at 1 January 2013	3,757,662	820,761	1,249,257	2,255,661	8,083,341
Revaluation	0	0	(23,143)	0	(23,143)
Charge for the year	608,570	106,550	268,441	399,398	1,382,959
Disposals	0	0	0	(103,912)	(103,912)
Balance at 31 December 2013	4,366,232	927,311	1,494,554	2,551,147	9,339,245
Book value					
Book value 1 January 2013	15,959,898	1,664,491	1,108,182	3,051,541	21,784,112
Book value at year-end	16,485,814	2,048,860	1,140,336	3,503,743	23,178,753

Estimated useful lives of fixed assets are as follows:

Buildings and artwork	7-50 years			
Aprons and car parks		5-50 years		
Fixtures and machinery			3-20 years	
Other assets				3-15 years

Information about the revalued properties in year-end:

	31.12.2013	31.12.2012
Revalued book value	124,697	127,693
Impact of the special revaluation	(61,344)	(62,959)
Book value without impact of revaluation	63,353	64,735

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

Consolidation	Assessment value	Insurance value
Buildings and sites	17,860,394	38,935,656
Machinery and equipment, asset insurances		9,979,104
Other insurances		566,442
Halt insurance		4,763,915

The Company´s assets has negative pledge in relation to financing. The Company is not allowed to plegde as security to raise further financing or to sell the assets. In year-end 2013 the remaining loan balance of ISK 13.3 billion are registered against the fixed assets of the Company of book value of ISK 17.3 billion at the same time. At year-end 2012 the remaining loan balance of ISK 15.8 billion were registered against the fixed assets of the Company of book value of ISK 16.8 billion at the same time.

All amounts are in thousands of ISK

9. Intangible assets and amortization

Consolidation	Usage agreement on facilities	Usage agreement on runways	Software	Total
Cost				
Balance at 1 January 2013	477,035	5,706,000	685,838	6,868,873
Revaluation	0	0	36,388	36,388
Additions	0	0	227,230	227,230
Balance at 31 December 2013	477,035	5,706,000	949,456	7,132,491
Amortization				
Balance at 1 January 2013	63,605	760,800	158,691	983,096
Revaluation	0	0	23,143	23,143
Charge for the year 2013	15,901	190,200	62,938	269,039
Balance at 31 December 2013	79,506	951,000	244,772	1,275,278
Book value				
Book value 1 January 2013	413,430	4,945,200	527,147	5,885,777
Book value at year-end	397,529	4,755,000	704,684	5,857,213

Due to the development of software intended for sale on the global market in the coming years, the development cost amounts to approximately 11 million which was capitalized in 2012. No addition to the development cost were made in 2013. It is estimated that the software development will be completed during the year 2014 and will be availble for use and sale. The Company has assessed the recoverable amount of this intangible asset and determined that this asset has not suffered an impairment loss. Other software is purchased and its estimated lifespan is 1-20 years.

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

10. The Consolidation

The Consolidated Financial Statements of Isavia Ltd. consists of the parent company and the following subsidiaries:

	Ownership%	Nominal amount	Principal activity
Shares in subsidiaries			
Duty Free Store Ltd., Keflavik Airport	100.00%	50,000	Retail and commerce
Tern Systems Ltd., Kopavogur	100.00%	50,000	Software and consulting

11. Bonds and other long term assets

Bonds

	31.12.2013	31.12.2012
Opening balance at the beginning of the year	430,937	141,479
Installments during the year	(48,695)	(18,883)
Additions	0	300,000
Price indexation changes	7,791	8,341
Book value at year-end	390,033	430,937
Current maturities	(48,549)	(48,460)
	341,484	382,476

All amounts are in thousands of ISK

11. Bonds and other long term assets (continued)

Long term receivables

	31.12.2013	31.12.2012
Opening balance at the beginning of the year	41,411	73,442
Additions	0	22,378
Charge for the year	(25,867)	(54,409)
Book value at year-end	15,544	41,411
Current maturities	(11,035)	(20,916)
	4,509	20,495
Bonds and other long term assets at year-end	345,993	402,972

Long-term receivables consist of cost of pavement overlay runways and special projects for The International Civil Aviation Organizations and are amortized over the estimated useful life.

12. Inventories

	31.12.2013	31.12.2012
Goods for resale	453,064	510,538
Goods in transit	15,298	29,081
Allowance for old and obsolete inventory	(16,932)	(18,455)
	451,431	521,164

Changes in allowance for old and obsolete inventory:

	31.12.2013	31.12.2012
At the beginning of the year	(18,455)	(12,856)
Impairment loss recognized on inventories	(16,115)	(21,664)
Inventories written off	17,638	16,066
At year-end	(16,932)	(18,455)
Insurance value of inventories	470,514	563,116

No inventories have been pledged at year-end 2013.

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

13. Other financial assets

Accounts receivables

	31.12.2013	31.12.2012
Domestic receivables	1,064,167	1,032,553
Foreign receivables	297,621	260,972
Income not invoiced	0	9,205
Allowances for doubtful accounts	(58,324)	(40,582)
	1,303,464	1,262,148

Ageing and allowance for doubtful accounts

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

	31.12.2013		**31.12.2012**	
	Gross amount	Allowance	Gross amount	Allowance
Receivables not yet due	891,373	8,120	846,857	10,709
Receivables, overdue 1-90 days	412,967	16,105	397,382	9,786
Receivables, overdue 91-180 days	13,572	4,263	26,074	4,244
Receivables, overdue 181-210 days	4,219	104	13,975	1,825
Receivables, overdue 211 days and older	39,657	29,732	18,442	14,018
	1,361,788	58,324	1,302,730	40,582

All amounts are in thousands of ISK

13. Other financial assets (continued)

Changes in the allowance for doubtful accounts:

	31.12.2013	31.12.2012
At the beginning of the year	(40,582)	(18,407)
Impairment loss recognized on receivables	(18,557)	(23,738)
Amounts written off as uncollectable	815	1,563
At year-end	(58,324)	(40,582)

Allowance has been made for doubtful accounts, this allowance has been determined by management in reference to past default experience.

Other receivables

	31.12.2013	31.12.2012
Value added tax, receivables	189,799	134,187
Prepaid expenses	102,486	76,014
Capital income tax	22,895	23,992
Accrued interest, receivables	2,217	11,037
Prepaid salaries	44,776	47,603
Other receivables	222,804	103,388
	584,977	396,221

Current maturities of long term receivables

	31.12.2013	31.12.2012
Bonds	48,549	48,460
Other long term receivables	11,035	20,916
	59,584	69,376

Bank balances and cash

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

	31.12.2013	31.12.2012
Bank balances in ISK	1,954,387	2,205,430
Bank balances in foreign currencies	772,113	817,142
Cash in ISK	3,531	3,162
	2,730,031	3,025,735

14. Equity

Share capital is specified as follows:

	Shares	Ratio	Amount
Total share capital at year-end	5,589,063	100.0%	5,589,063
	5,589,063	100.0%	5,589,063

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

All amounts are in thousands of ISK

15. Long term borrowings

	Loans from credit institutions 31.12.2013	Loans from credit institutions 31.12.2012
Debts in CHF	3,502,047	4,058,339
Debts in EUR	4,319,572	5,170,182
Debts in GBP	1,029,686	1,780,441
Debts in JPY	891,396	1,295,148
Debts in SEK	337,261	790,437
Debts in USD	3,793,216	3,638,736
Debts in ISK	2,013,159	2,069,412
	15,886,337	18,802,694
Amount due for settlement within 12 months	(1,277,175)	(1,407,703)
Non-current liabilities at year-end	14,609,162	17,394,991

Installments of non-current liabilities are specified as follows:

	Loans from credit institutions 31.12.2013	Loans from credit institutions 31.12.2012
Current maturities	1,277,175	1,407,703
Installments in 2015	1,256,216	1,396,099
Installments in 2016	1,242,148	1,371,950
Installments in 2017	1,099,965	1,355,474
Installments in 2018	958,072	1,202,623
Installments later	10,052,763	12,068,845
	15,886,337	18,802,694

16. Obligations under finance leases

	Lease payments not due 31.12.2013	Lease payments not due 31.12.2012	Present value of minimum lease payments 31.12.2013	Present value of minimum lease payments 31.12.2012
Amounts payable within one year	1,905	2,237	1,880	2,152
Amounts payable later	0	2,180	0	2,152
	1,905	4,416	1,880	4,303
Future finance charges	(24)	(113)		
Present value of lease obligation	1,880	4,303		
Current maturities	(1,880)	(2,152)		
Book value at year-end	0	2,152		

All amounts are in thousands of ISK

17. Retirement benefit obligation

Isavia Ltd. is responsible for the pension fund obligation arising in excess of total premium related to their employees each year. The Company is not responsible for total retirement benefit obligations for its employees that belong to the B part of The Pension Fund for State Employees but only additional payments each year so the retirement benefit obligations for employee will be met. In the year 2013 the total amount charged through profit or loss amounted to ISK 164.6 million, thereof was ISK 10.6 million decrease due to settlement for the year 2012. In the year 2012 the total amount charged through profit and loss account amounted ISK 366.8 million including a contribution of ISK 166.4 million for the years 2007 - 2011 arising from the agreement Flugstodir Ltd. made to members of the Icelandic Air Traffic Controller Association.

18. Deferred tax liability

	Deferred tax assets	Deferred tax liabilities
Opening balance at 1 January 2012	82,287	(38,519)
Calculated income tax for the year 2012	0	(34,830)
Income tax payable for the year 2013	(159,476)	36,400
Deferred tax assets from Isavia (parent company) to deferred tax liability	77,189	(77,189)
Balance at 31.12.2012	0	(114,139)
Calculated income tax for the year 2013	0	(801,335)
Income tax payable for the year 2014	0	15,124
Balance at 31.12.2013	0	(900,350)

Deferred tax balances consist of the following account balances

	Deferred tax liabilities 31.12.2013	Deferred tax liabilities 31.12.2012
Property, plant and equipment	(892,185)	(1,012,532)
Current assets	64,147	73,730
Other items	(152,303)	187,007
Tax loss carried forward	79,991	637,656
	(900,350)	(114,139)

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

Available for the years 2014 through 2016	18,198
Available to the year 2017	167,010
Available to the year 2018	107,966
Available to the year 2019	23,596
Available to the year 2020	411,066
	727,836

All amounts are in thousands of ISK

19. Other financial liabilities

Accounts payable

	31.12.2013	31.12.2012
Domestic accounts payable	916,837	702,865
Accounts payable - Joint finance agreement	226,299	355,786
Foreign accounts payable	246,718	212,385
	1,389,854	1,271,036

Current maturities of long-term liabilities

	31.12.2013	31.12.2012
Loans from credit institutions	1,277,175	1,407,703
Obligation under finance leases	1,880	2,152
	1,279,055	1,409,855

Other current liabilities

	31.12.2013	31.12.2012
Value added tax, payable	14,883	20,964
Deferred revenue	11,437	30,440
Accrued pension contribution to The Pension Fund for State Employees	172,524	191,781
Salaries and related expenses payable	298,579	321,008
Accrued holiday commitment	686,293	634,452
Accrued interest, payable	126,365	146,791
Other liabilities	127,481	168,925
	1,437,561	1,514,360

20. Financial risk

Financial instruments

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

Financial assets	31.12.2013	31.12.2012
Bank balance and cash	2,730,031	3,025,735
Financial assets that are intended to hold to maturity	390,033	430,687
Loans and receivables	1,903,985	1,700,030

Financial liabilities	31.12.2013	31.12.2012
Other financial liabilities	18,747,390	21,628,793

All amounts are in thousands of ISK

20. Financial risk (continued)

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

Risk management

The Company's Management monitors and manages the financial risks relating to the operations of the Company. These risks include interest rate risk, currency risk, market risk, credit risk and liquidity risk.

Interest rate risk

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

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

Sensitivity analysis

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

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

	31.12.2013		31.12.2012	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on profit or loss and other equity	(45,661)	(91,321)	(55,936)	(111,872)

Foreign currency risk

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates.

Foreign currency risk exposure does arise when there is a difference between assets and liabilities denominated in foreign currency.

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

	Year-end rate		Average rate	
Currency	2013	2012	2013	2012
EUR	158.50	169.80	162.38	160.73
GBP	190.21	208.15	191.22	198.16
JPY	1.096	1.495	1.256	1.570
DKK	21.25	22.76	21.77	21.59
NOK	18.92	23.04	20.83	21.50
SEK	17.95	19.76	18.78	18.47
USD	115.03	128.74	122.23	125.05
CHF	129.19	140.64	131.91	133.35
CAD	108.07	129.36	118.72	125.09

All amounts are in thousands of ISK

20. Financial risk (continued)

Foreign currency risk 31.12.2013

	Assets	Liabilities	Net balance
EUR	401,906	4,459,312	(4,057,406)
GBP	217,790	1,036,746	(818,956)
JPY	21,246	891,866	(870,621)
CHF	81,906	3,508,288	(3,426,382)
DKK	25,352	11,676	13,676
NOK	4,461	17,381	(12,920)
SEK	24,914	337,531	(312,616)
USD	293,186	3,858,977	(3,565,791)
CAD	526	0	526

Foreign currency risk 31.12.2012

	Assets	Liabilities	Net balance
EUR	315,461	5,312,786	(4,997,325)
GBP	91,003	1,788,146	(1,697,142)
JPY	30,139	1,295,901	(1,265,762)
CHF	89,431	4,073,846	(3,984,416)
DKK	28,331	12,282	16,049
NOK	15,885	2,697	13,188
SEK	87,939	790,664	(702,725)
USD	433,283	3,672,149	(3,238,866)
CAD	2,501	54	2,447

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. The table above details monetary assets and liabilities that are denomintated in foreign currency and the sensitivity analysis apply to. The foreign currency assets and liabilities in the sensitivity analysis are mainly foreign currency borrowings and foreign currency bank balances. The analysis assumes that all other variables than the relevant foreign currency rate are held constant. The sensitivity analysis does take into account tax effects. A positive amounts below indicates an increase in profit and other equity. A decrease of the relevant foreign currency rate against the ISK would have an opposite impact on profit or and other equity.

Effects on profit or loss and equity	31.12.2013		31.12.2012	
	5%	10%	5%	10%
EUR	(162,296)	(324,592)	(199,893)	(399,786)
GBP	(32,758)	(65,517)	(67,886)	(135,771)
JPY	(34,825)	(69,650)	(50,630)	(101,261)
CHF	(137,055)	(274,111)	(159,377)	(318,753)
DKK	547	1,094	642	1,284
NOK	(517)	(1,034)	528	1,055
SED	(12,505)	(25,009)	(28,109)	(56,218)
USD	(142,632)	(285,263)	(129,555)	(259,109)
CAD	21	42	98	196

All amounts are in thousands of ISK

20. Financial risk (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company monitors the credit risk development on a regular basis.

Maximum credit risk	Carrying amount 31.12.2013	31.12.2012
Bonds and other long term assets	405,577	472,448
Accounts receivables	1,309,899	1,263,151
Government treasury	0	42,624
Other receivables	323,354	160,630
Bank balances and cash	2,730,031	3,025,735
	4,768,860	4,964,587

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

Liquidity risk management

Liquidity risk is the risk that the company has difficulties to meet its financial commitments in the near future.

On a regular basis the Company monitors the liquidity balance, development and the effects of market environment.

	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2013				
Non-interest bearing	3,283,557	0	0	3,283,557
Floating interest rates	1,201,549	4,199,038	9,041,359	14,441,946
Fixed interest rates	77,507	357,362	1,011,403	1,446,272
	4,562,613	4,556,400	10,052,762	19,171,775
Assets 31.12.2013				
Non-interest bearing	2,227,796	21,746	66,106	2,315,648
Floating interest rates	2,779,980	142,338	120,000	3,042,319
	5,007,776	164,084	186,106	5,357,967
Net balance 31.12.2013	445,163	(4,392,316)	(9,866,656)	(13,813,808)

	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2012				
Non-interest bearing	3,233,831	0	0	3,233,831
Floating interest rates	1,339,155	5,002,339	10,999,553	17,341,046
Fixed interest rates	71,058	325,959	1,069,293	1,466,309
	4,644,044	5,328,298	12,068,845	22,041,187
Assets 31.12.2012				
Non-interest bearing	2,048,753	37,183	69,145	2,155,081
Floating interest rates	3,064,649	146,745	150,000	3,361,394
Fixed interest rates	0	0	0	0
	5,113,403	183,927	219,145	5,516,475
Net balance 31.12.2012	469,359	(5,144,371)	(11,849,700)	(16,524,712)

All amounts are in thousands of ISK

21. Other issues

Revenues of International Air Navigation Services

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

Remaining balance on bugdet line

The remaining balances on the principal budget line 06-672 Airports and Air navigation services in The Treasury Accounts 2011 was ISK 1,176.1 million. This concerns the construction of extending the runway of Akureyri airport. The Ministry of Finance and Economic Affairs has made a claim that the Ministry of the Interior shall compensate this budget line and allocate part of Isavia's income from the service agreement to construction and operation. No changes because of this was entered into Treasury Accounts 2012. Isavia Ltd. considers this claim irrelevant to the Company.

22. Other obligations

Operating license

Isavia Ltd. holds a license from the Iceland Civil Aviation Administration for the operations of air navigation services under regulation No. 631/2008 and a license for the operation of airports according to regulation No. 464/2007. The licenses are granted for variable periods. Licenses for the operations of air navigation services and Keflavik Airport, Reykjavik Airport, Akureyri Airport and Egilsstadir Airport are valid until 2016. Registered landing area or other airports including airports for scheduled flights are valid until 2017.

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

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

Service agreement for construction

The service agreement between the Ministry of the Interior and the Company applies to maintenance and construction of airports. The company works with the Ministry of the Interior and prepares a proposal for maintance and construction which the company believes is neccessary to perform in accordance with the National Transportation Policy. The construction projects are included in this plan and are therefore agreed, according to the transportation policy. Payments are received according to a payment plan. In 2013 the amount for construction projects was in total ISK 355.1 million.

Service agreements for operations

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

The company is obliged to have in effect all legally binding insurance including liability insurance for air traffic control and airports. The liability coverage at year-end for air traffic control and airports amounted to USD 1,000,000,000 and for flight testing amounted to USD 500.000.

The Company's legally binding insurance is exempt from liability due to acts of terrorism. The Company has procured insurance against terrorism covering damage in air navigation services and airports amounting to approximately USD 150,000,000 and USD 15,000,000 at Keflavik Airport.

The company has purchased an idemnity insurance for the Board of Directors and Management which covers a loss up to USD 250,000,000.

Obligation due to employees

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

23. Related parties

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

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

24. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on March 26th, 2014.

25. Consolidated ratios

From Statement of Comprehensive Income:	2013	2012
Profitability		
Earnings before interests, taxes, depreciation and amortisation (EBITDA)	4,469,620	3,822,800
a) Contribution margin on operation	22.56%	20.78%
b) Profit margin on operating revenue	16.24%	4.01%
c) Earning per share (EPS)	0.58	0.13
d) Return on equity	24.27%	6.54%

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

From Balance sheet:	31.12.2013	31.12.2012
Activity ratios		
e) Investment in inventories	0.02	0.03
f) Rate of return on assets	0.58	0.56
g) Inventory turnover	7.99	7.92
h) Receivables turnover	15.44	15.07

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

Liquidity ratios		
i) Quick or acid-test ratio	1.13	1.13
j) Current ratio	1.24	1.26

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

Coverage ratios		
k) Equity ratio	43.07%	34.88%
l) Internal value of shares	2.66	2.08

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

From Cash flow:	2013	2012
m) Net cash debt coverage	0.21	0.16
n) Quality of sales	1.25	4.79
o) Quality of net profit	1.58	1.64

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

All amounts are in thousands of ISK

25. Consolidated ratios (continued)

Operating expenses as percentage of revenues	2013	2012
Cost of goods sold/income from retail division	19.61%	19.82%
Salaries and related expenses/operating revenues	41.69%	42.63%
Administrative expenses/operating revenues	2.60%	2.66%
Other operating expenses/operating revenues	13.54%	14.11%
Depreciation and amortization/operating revenue	8.34%	7.75%
Operating expenses/operating revenues	85.78%	86.97%

26. Statement of Cash Flows

Consolidation	2013	2012
Net profit	3,216,509	737,947
Depreciation and amortization	1,651,998	1,426,327
Other non-cash items	(1,600,307)	1,070,126
Other changes	858,881	255,199
Working capital provided by operating activities	4,127,081	3,489,598
Changes in:		
Operating assets	(122,282)	(311,559)
Operating liabilities	27,027	357,294
Net cash provided by operating activities	4,031,825	3,535,334

All amounts are in thousands of ISK


Akureyri Airport

Values of Isavia

Safety

We minimise risk by employing disciplined operating procedures, relentless pursuit of knowledge and systematic super- vision and effect safety for our customers, personnel and the public.

Co-operation

We co-operate as one toward the goal of success and excellence in service. We respect each other's work and en-courage initiative toward reformation.

Service

We establish clear service benchmarks and greet our customers with positive attitude and respect. We exercise prudence and seek ways to maximise success.

Keflavik Airport

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