



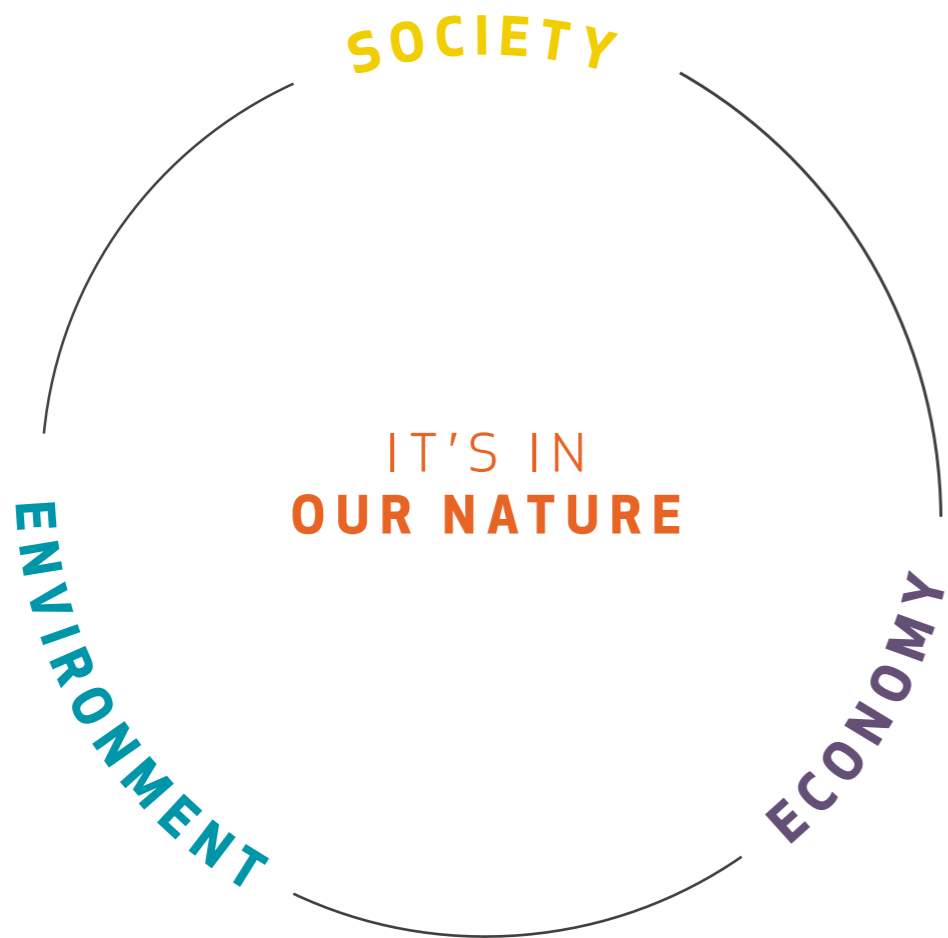
ISAVIA

Annual and CSR Report
2016





ISAVIA



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ABOUT ISAVIA

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Isavia is issuing its first Annual and Sustainability Report. The goal is to provide a more in-depth view of the company's activities and its effects on society at large. The report follows the guidelines of the Global Reporting Initiative (GRI G4) together with Airport Operators Sector Disclosures.

Over the next few years, further work will be carried out on further strengthening the company's sustainability. The information in the report is based on operations in 2016.

ISAVIA'S OPERATIONS



KEFLAVÍK AIRPORT HAS TWO RUNWAYS, WHICH ARE 3,054 AND 3,065 METRES.

REYKJAVÍK AIRPORT HAS TWO RUNWAYS, WHICH ARE 1,567 AND 1,230 METRES.

AKUREYRI AIRPORT HAS ONE 2,400 M RUNWAY, AND EGILSSTAÐIR AIRPORT HAS ONE 2,000 M RUNWAY.

OTHER AIRPORTS AND LANDING SITES HAVE 634 M TO 1,887 M RUNWAYS.

MISSION

Isavia is a service company in airport operations and air navigation and forms the foundation for Iceland's civil aviation.

We work together to be a part of a good journey both in Iceland and abroad.

VALUES

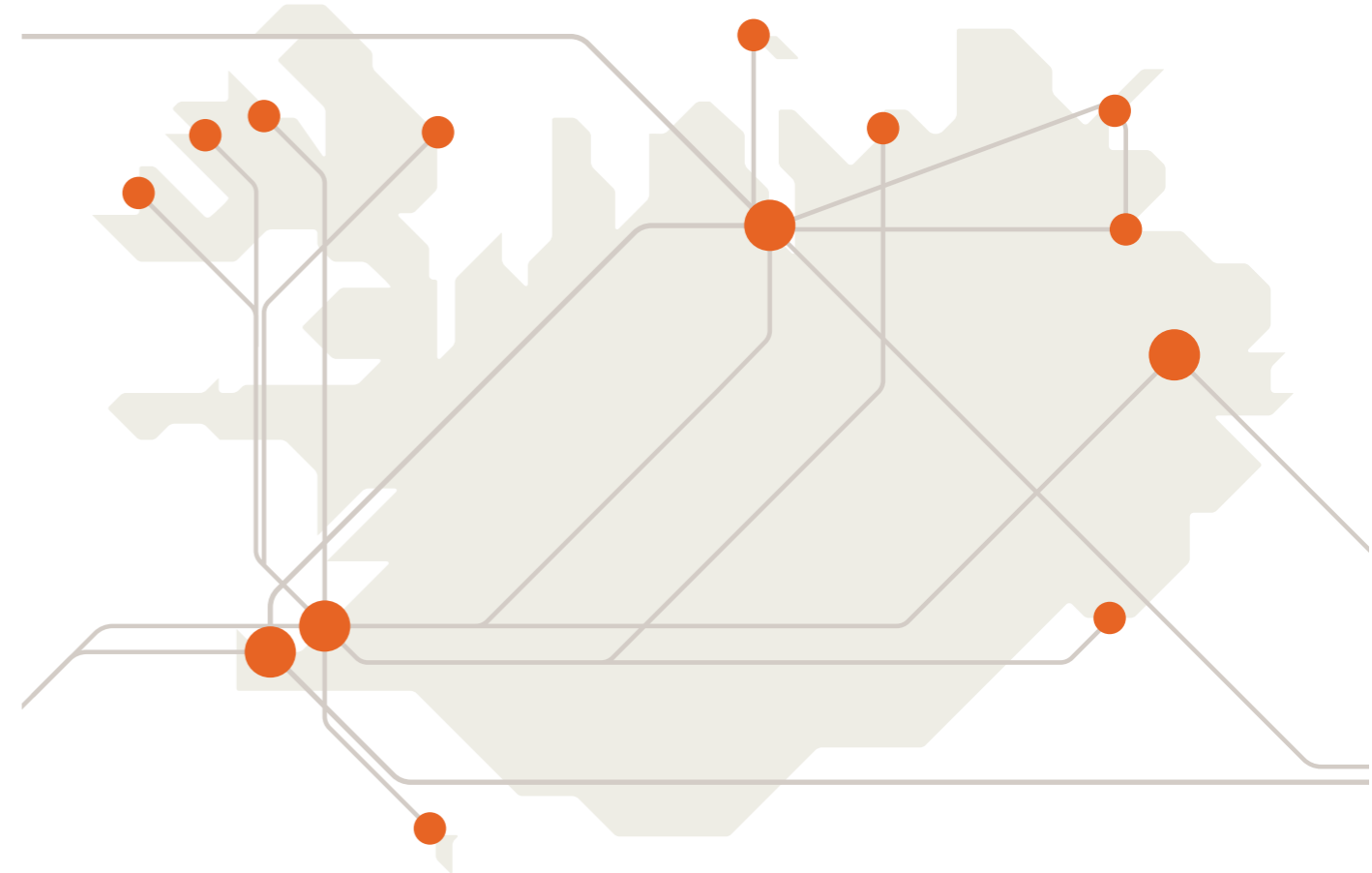
- Safety
- Co-operation
- Service

Isavia is a publicly owned company responsible for the operation, maintenance and development of airports for scheduled flights and landing sites in Iceland. In addition, the company provides air navigation services for domestic and international flights over the northern part of the North Atlantic Ocean.

The core operations of the company are divided into three: the operation of Keflavík Airport, air navigation services and the operation of other Icelandic airports. The operating structure of the three core operations is, by their nature, very dissimilar. Keflavík Airport is wholly operated on business terms, which means that it is sustainable. The operation of other Icelandic airports is not sustainable and is based on the

company's agreement with the Ministry of the Interior which determines their level of service, operation and maintenance. State contributions amount to approximately 70% of their income. The operation of air navigation services in the upper airspace over the North Atlantic Ocean is based on agreements with 24 countries for services and financing, which is based on fee collection on a cost basis.

Isavia owns four subsidiaries, each of which have their own object. The Duty Free Store sells duty-free goods at Keflavík Airport. Tern Systems manufactures software for air navigation, Domavia manages some of the real property owned by Isavia and Suluk manages the operation of air navigation in Greenland.



Isavia operates four international airports: Keflavik Airport, Reykjavik Airport, Akureyri Airport and Egilsstaðir Airport. In addition, there are ten landing sites for regular scheduled flights in Iceland. The company is also responsible for 36 other landing sites throughout Iceland.

ADDRESS BY THE MANAGING DIRECTOR

2016 WAS ISAVIA'S BEST YEAR SINCE ITS ESTABLISHMENT. THE ACHIEVEMENT CAN BE TRACED TO MANY INTERACTIVE FACTORS, AND ALL CORE OPERATIONS OF THE COMPANY SHOWED A BETTER PERFORMANCE THAN THE YEAR BEFORE.



Early this year we reached a significant milestone, when we unified our brand identity with a single logo. Prior to this, the operation of Isavia has been under two logos: Isavia and Keflavík International Airport. The advantages of a shared image are numerous, and it is now, for instance, easier to market the international airports – Keflavík, Akureyri and Egilsstaðir Airports – together. Thus, the considerable and successful marketing work that has been carried out for Keflavík Airport over the past few years will also be useful for the marketing of the other international airports.

In conjunction with this task, work was carried on sharpening the definition of the mission and vision of the company. The objective are lofty, as can be seen by the company's vision of strengthening Iceland as a central hub for flights in the North Atlantic region. In order to realise this future vision, it is important that clear policies on air travel are formulated by the authorities. Questions need to be answered as regards policies on the increase

in the number of travellers, both as regards those who come into Iceland and those who merely transit through on their way between continents. The policy must also specify manpower requirements, education and investments in infrastructure for passenger flights, flight academies and private pilots. As a contribution to the discourse, Isavia had a report prepared this year to assess the future effects of the enlargement of Keflavík Airport.

Keflavik International Airport

The number of passengers through Keflavík Airport increased by 40% in 2016, or by almost two million. The increase corresponds to the total number of passengers passing through the airport in 2010.

As in recent years, there were considerable improvements made to the airport. The focus has been on new construction to meet the increase in the number of passengers and bigger aircraft. In addition, there have been large projects involving

the renewal of the runway system. Investments have been in tune with the airport's master plan, and keeping the effects of construction on passengers to a minimum has been successful, as can be seen from surveys conducted by Airports Council International (ACI). The increase in the number of passengers has led to fast-paced growth in tourism services. It is, however, important that there is general acceptance in society on the effects of the increase in the number of foreign travellers to Iceland and the number of transit passengers at Keflavík Airport. One must not forget, however, that the growth of the tourist industry is one of the main reasons that economic growth in Iceland was one of the highest in the world in 2016.

“THE INCREASE IN THE NUMBER OF PASSENGERS HAS LED TO FAST-PACED GROWTH IN TOURISM SERVICES. IT IS, HOWEVER, IMPORTANT THAT THERE IS GENERAL ACCEPTANCE IN SOCIETY ON THE EFFECTS OF THE INCREASE IN THE NUMBER OF FOREIGN TRAVELLERS.”

Domestic airports

The financing and operation of domestic airports has been difficult in recent years. The ownership and responsibility of the infrastructure lies with the state, which entrusts Isavia with the operation on the basis of a service agreement applicable for one year at a time. Approximately 70% of the system's income is from the Treasury, and the rest is from users. Comparisons have shown that the operation of the domestic airports in Iceland is considerably more economical than that of other comparable airport systems in Europe. The share of the state, however, has barely been enough to cover the operation, and it is clear that airport staff have moved mountains to keep the system operational.

The company has focused on high-quality technical equipment in airports and has invested ISK 664m renewing equipment in recent years. This has made all the difference in the operation of domestic airports.

Isavia strives to support the Icelandic authorities in making domestic flights a realistic public transport option for Icelanders. During the year, the company, along with the Ministry of the Interior, endeavoured to find solutions for the future operational form of the domestic airports, and there are hopes that the results of this work will be presented later this year.

Air navigation services

Considerable increases in traffic have also characterised the air navigation services of Isavia in recent years. The increase can be traced to both traffic to and from Iceland and over the North Atlantic Ocean. This has led to an increased work load for the staff of air traffic control. The response to this has been the training of new air traffic controllers, and there have never been as many trainees as there are at present.

The company moved into an outstanding addition to the Reykjavík Area Control Centre, and the plan is to move the entire air traffic control operation for the North Atlantic Ocean into the

building in the future.

Part of a pleasant journey

Isavia is a service company involved in the operation of airports and air navigation services that are the basis for Iceland's air travel. Employees are responsible for ensuring a pleasant journey for customers of the company while at the same time being part of each other's enjoyable journey.

I would like to thank all these fantastic employees for the pleasant journey and look forward to taking on the demanding tasks ahead with them.

Björn Óli
Hauksson

CHAIRMAN'S STATEMENT

2016 WAS, FOR MANY REASONS, AN EVENTFUL YEAR FOR ISAVIA. THERE WAS A CONSIDERABLE INCREASE IN INCOME IN ALL THE COMPANY'S CORE FIELDS, WHICH CONSIST OF AIR NAVIGATION SERVICES, THE AIRPORTS DIVISION AND KEFLAVÍK INTERNATIONAL AIRPORT.



The company's operating income amounted to ISK 33bn in 2016, increasing by around 26.99%, or ISK 7bn between years. The growth in income was, for the most part, due to the increased scope of operations. At the same time, it could be said that the growth was profitable, as the results before depreciation and financial items increased as proportion of turnover in all core operations. The year's profits amounted to ISK 6.9bn, whereof exchange rate gains amounted to just under ISK 2.8bn.

Policy formulation

Numerous issues were addressed by the Board in 2016, many of which form the basis of the company's future policy formulation. Various issues relating to work on the zoning plans and master plan of Keflavík Airport were specifically addressed, as was the future organisation of air navigation services for the North Atlantic Ocean area and the necessity

of supporting the development of the domestic airports, which is an important aspect in the strengthening of Iceland's transport system. The significant recent increase in the number of tourists and the anticipated further increase over the next few years call for considerable and expensive development of airport structures in coming years. This is linked to an important decision on financing that is important to assess in light of the ownership of the company and risk.

Corporate Social Responsibility

Isavia established for itself during the year a policy of corporate social responsibility aimed toward promoting a profitable operation focusing on ensuring a balance between economy, environment and society. At the same time, the company became a member of the UN Global Compact, an international project run by the United Nations. In doing so, the company joined over nine thousand companies in 168 countries that are already members. By participating, Isavia undertakes to formulate policies and take up work practices in accordance with ten basic principles of the United Nations on human rights, labour, environmental and anti-corruption. The company will annually submit a report to the United Nations describing the company's goals and achievements in the ten categories specified. The report will be submitted for the first time in 2017. In addition, the company has become a member of Festa, the Icelandic Centre for Corporate Social Responsibility, and is one of the companies that have signed the joint declaration on responsible tourism. The company, moreover, is one of the seven companies that are the sponsors of the project.



Equal rights programme and equal pay

The Board of Directors of Isavia has approved an equal rights programme for the company with the aim of ensuring equal pay for both genders, increasing general work satisfaction and improving morale. The company negotiated with PwC on the implementation of the equal pay assessment during the year. An assessment was made of wage payments to all employees, which were examined based on age, length of service, total working hours and education. The company fulfilled the requirements of the assessment and received, therefore, the gold badge of PwC’s equal pay assessment in 2016 in confirmation that the company upholds wage equality.

“THE COMPANY SET ITSELF AN ENVIRONMENTAL POLICY FOR THE PURPOSE OF MINIMISING THE EFFECTS OF NEGATIVE ENVIRONMENTAL ASPECTS IN ITS OPERATION.”

Environmental issues

In environmental matters, Isavia has endeavoured to meet generally accepted views and was one of the companies that signed the statement issued by Festa and the City of Reykjavík on climate change goals. The company set itself an environmental policy for the purpose of minimising the effects of negative environmental aspects in its operation and making sure that environmental issues are taken into account in all decisions. At present, work is underway on setting up real-time sound measurements at Keflavík Airport, the proportion of recycled waste will be increased and

a model has been set up that measures and assesses air quality at Keflavík Airport based on various criteria. In addition, a schedule has been created for monitoring the quality of groundwater at and near Keflavík Airport. The company, moreover, is a participant in the Græn skref (Green steps) project under the auspices of the Environmental Agency of Iceland (EAI). This project has been used to make efforts in environmental issues more outwardly visible.

Governance

The Board has established detailed rules of procedure defining its scope of authority and the divisions of tasks between it and the Managing Director. In addition, the company has established a comprehensive risk policy for the

company, a code of ethics and focus points as regards CSR. The rules of procedure provide for the company’s Board following the guidelines on Corporate Governance which are published by the Iceland Chamber of Commerce, Nasdaq OMX Iceland hf. and the Confederation of Icelandic Employers. The company’s corporate governance statement was renewed in February 2017.

Risk management

The company has established a risk management policy and closely follows a pre-defined risk overview.

The company’s defined risks are regularly reviewed in light of the seriousness of each risk aspect and the likelihood of events taking place.

The development of Keflavík Airport

The company’s Board has recently been examining various aspects in the plans for the development of Keflavík Airport. Extensive investment plans have been approved which aim to make the airport able to receive the large numbers of passengers passing through it. Large amounts have been spent, and the Board of Directors of the company has approved additional extensive funds to continue developments. These decisions are based on the company’s longterm plans, which indicate that Isavia is well able to tackle the continued developments, seeing that the company’s position at the end of 2016 was quite strong.

Inadequate development and maintenance of domestic airports

Airports within Iceland are the property of the Icelandic state and are under their jurisdiction when it comes to decisions on the funding of their development and maintenance. The role of Isavia is defined in a service agreement with the Ministry of the Interior. The agreement is effective for a term of one year at a time, with the Ministry, as the service purchaser, determining the level of service. The 2017 Budget does not provide for funds for the maintenance of domestic airports, while at the same time, the need for maintenance is significant and growing. There is reason to make special note of the fact that a lack of maintenance funds to domestic airports will mean



Computer drawing of the annex to the south building of Keflavík Airport. Estimated work completion date 2017.

the closure of airports in the next few years if no extra funds are allocated to the most urgent needs.

Good year in air navigation services

Isavia’s air navigation services have grown considerably in recent years, a development that can be traced to increases in the number of flights to and from Iceland as well as increased services to international flights between Asia and Europe on the one hand and between North America and Europe on the other. The company has been hard at work developing and adopting technical innovations that have benefited aircraft operators in the form of economisation and flexibility. There are extensive projects ahead that will make the company even more capable of providing aircraft operators with continued good services.

Co-ordinated team

The high increase in the number of travellers, far in excess of annual forecasts, and the resulting extensive construction work was extremely demanding on the management and staff of Isavia in 2016. Such increases cannot be easily met except with good co-operation, co-ordination and organisation. It is fair to say that the unusual situation was resolved successfully, and there is good reason, therefore, to thank, as ever, on behalf of the Board of Isavia, the Managing Director, the executive management and all the employees of the company for their excellent work under the unusual conditions during the past year.

Ingimundur Sigurpálsson



Airport at Þórshöfn
66° 13' 13.5948" N
15° 19' 51.1068" W

GOVERNANCE



Structure and composition

Isavia is a publicly owned company owned by the Icelandic state. The operations of the company are in accordance with Act No. 153/2009 on the Merger of the Government Owned Limited Companies Flugstoðir and Keflavík Airport, Act No. 76/2008 on Establishing a Government Owned Limited Company for the Running of Keflavík Airport, Act No. 102/2006 on the Establishment of a Public Limited Company for Air Navigation Services and Airport Operations by the Icelandic Civil Aviation Authority, and the Aviation Act No. 60/1998.

The company’s corporate governance is prescribed by Act No. 2/1995 on Public Limited Companies, the authorities’ general ownership policies from August 2012, the company’s Articles of Association and Rules of Procedure of the Board.

The company’s Board refers to the “Guidelines of Corporate Governance” and complies with them in all major respects, although not legally bound to do so. No formal Board sub-committees are

currently operational, such as an audit committee, selection committee or wage committee. A policy on corporate social responsibility has been set. No court rulings have been issued in which the company is believed to have broken any laws or regulations.

Board of Directors

The Board of Directors of Isavia consists of five members and five alternates, all of whom are elected at the Annual General Meeting for a term of one year. Board members are nominated by the Minister for Finance and Economic Affairs on behalf of the owner, the Icelandic state. The gender ratio in Isavia’s Board is 40% women and 60% men.

Board’s activities and rules of procedure

The Board has established detailed Rules of Procedure defining its scope of authority and the divisions of tasks between it and the Managing Director. The Rules of Procedure were approved at a meeting of the Board of Directors on 11 May 2016. They include the division of tasks between Board members, rules on the eligibility of politicians to take part in processing matters,

Board of Directors

Ingimundur Sigurpálsson, born 1951, Business Administrator. Chairman of the Board from 2014.

Matthías Imsland, born 1974, Political Scientist. Vice-Chairman of the Board from 2014.

Theódóra Þorsteinsdóttir, born 1969, Attorney. Member of the Board from 2015.

Ragnar Óskarsson, born 1948, BA in History, Icelandic and Philosophy. Vice-Chairman of the Board 2010–2014, member of the Board from 2014.

Sigrún Traustadóttir, born 1962, Business Administrator. Member of the Board from 2014.

Alternates

Friðbjörg Matthíasdóttir, born in 1969, Business Administrator. Alternate since 2014.

Jens Garðar Helgason, born in 1976, Managing Director. Alternate since 2014.

Jón Norðfjörð, born in 1947, President/CEO. Member of the Board of Directors 2010–2014. Alternate since 2014.

Sigurbjörn Trausti Vilhjálmsson, born in 1943, Electrician. Alternate since 2010.

Tryggvi Haraldsson, born in 1981, Political Scientist and Europe Expert. Alternate since 2014.

Further information on the Board of Directors of Isavia can be obtained from the website isavia.is/um-isavia/stjorn.

procedures and minutes for meetings, rules on confidentiality, the obligation to provide information to the Board and the decision making power of the Board.

The Board of Directors shall constitute the supreme authority of the company from one shareholders’ meeting to the next, in accordance with laws and the company’s Articles of Association. The Board’s main role is to manage the company and ensure adequate supervision of the accounts and use of funds, as well as to confirm the operating budget and investment plans and ensure compliance with them. The Board takes all major decisions in the company’s operations and makes sure that the company is operated in accordance with the relevant laws and regulations. Furthermore, the Board has the goal of promoting the company’s growth and results in the long term by formulating company policy in consultation with company management.

Performance assessment

The Board evaluates its performance regularly, its practices and rules of procedure, development of the company, performance of the Managing Director and the efficiency of sub-committees, if present. The performance assessment is intended, among other things, to evaluate the strengths and weaknesses of the Board’s work and practices and take into consideration the components which the Board believes may be improved. The most recent performance assessment was carried out in December 2016.

Managing Director

The Managing Director is responsible for the management of all day-to-day operations in accordance with the policies and instructions of the Board. Day-to-day operations do not include measures which are unusual or extraordinary. He has decision-making powers regarding all the operational and financial issues of the company and manages its assets. He submits an account of the company’s operations and performance at Board meetings and answers to the Board for all day-to-day operations and compliance with the company’s Articles of Association, laws and regulations.

EXECUTIVE BOARD

The operation of the company is based on five operating divisions which are responsible for the core operations of the company: Air Navigation Services, Airports and Infrastructure, Keflavík Airport Operations, Keflavík Airport Technological and Assets Division and Keflavík Airport Commercial Operations. Isavia has three support divisions: Development and Administration, Human Resources and Performance and Finance. In addition, Standards and Quality Management form a separate support unit. The Executive Board addresses and determines the issues that relate to the operation of the company as a whole as well as handles matters that overlap divisions and departments. In addition, the Executive Board is responsible for future development and the implementation of the safety and quality management system. The Directors of the operations and support units form the Executive Board together with the Managing Director.



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- 1. Ásgeir Pálsson
- 2. Guðmundur Daði Rúnarsson
- 3. Björn Óli Hauksson
- 4. Helga Eyjólfsdóttir
- 5. Jón Karl Ólafsson
- 6. Sveinbjörn Indriðason
- 7. Elín Árnadóttir
- 8. Þróstur V. Söring
- 9. Hlynur Sigurðsson
- 10. Sigurður Ólafsson



Air Navigation Services Division
The Air Navigation Services Division is responsible for air navigation services for domestic flights and international flights over a large area of the North Atlantic Ocean. The Director is Ásgeir Pálsson, born 1951, Air Traffic Controller. Director at Isavia since 2010.

Airport Operations Division
With the exception of Keflavík Airport, the Airport Operations Division is responsible for the operation and maintenance of all the airports in Iceland. The Director is Jón Karl Ólafsson, born 1958, Business Administrator. Director since 2015.

Keflavík Airport Operations Division
The Keflavík Airport Operations Division is responsible for airport security, airport services and technical services for the airport. The Director is Þröstur V. Söring, born 1968, Engineer. Director at Isavia since 2014, in the Keflavík Airport Operations Division since 2016.

Keflavík Airport Technology and Property Division
The Keflavík Technology and Property Division manages larger construction projects, environmental issues at Keflavík Airport, maintenance

and the operation of real property and baggage handling systems. The Director is Guðmundur Daði Rúnarsson, born 1979, Business Engineer. Director since 2016.

Keflavík Airport Commercial Operations
The Commercial Operations Division is responsible for passenger services, the operation of retail and catering and handles all negotiations with operators at Keflavík Airport as well as the operation of car park services and the development of new flight routes. The Director is Hlynur Sigurðsson, born 1974, Business Engineer. Director at Isavia since 2010, in the Keflavík Airport Commercial Operations Division since 2016.

Development and Administration
The Development and Administration Division is a support division providing assistance to the Managing Director and the Board. The employees of the Division are responsible for marketing and public relations, business development, project management office, policy formulation, legal, Keflavík Airport zoning, corporate governance and the co-ordination of airports and airport security. The Director is Elín Árnadóttir, born 1971, Business Administrator. Deputy Managing Director and Director

at Isavia since 2010, Director of Development and Administration since 2013.

Human Resources and Performance
Human Resources and Performance is a support division that manages HR functions, including professional development, training and education, payroll processing, wage agreements, internal communications, strategy implementation and performance evaluation. The Director is Sigurður Ólafsson, born 1962, Business Economist. Director since 2013.

Finance
The Finance Division is a support division responsible for accounting, treasury, risk management, economics, financing operations and the monitoring of purchases. The Director is Sveinbjörn Indriðason, born 1972, Economist. Director since 2013.

Standards and Quality Management
The Standards and Quality Management Division is a support division that manages the organisation and harmonisation of safety and quality issues together with the management of environmental issues. The Safety and Quality Manager is Helga Eyjólfsdóttir, born 1964, Chemical Engineer. Standards and Quality Manager since 2010.

SUBSIDIARIES

Duty-Free Store Ltd.
The Duty-Free Store operates five outlets in the Leifur Eiríksson Air Terminal, four for departure passengers and one for arrivals. The shops are open whenever flights are scheduled through the airport. The Duty-Free Store focuses on offering a wide range of goods from both Icelandic and international brands at reasonable prices. The airport has approximately 210 permanent employees. This number increases to around 310 during the summer. The Duty Free Store was chosen as the best duty-free shop in Europe in 2013 and 2014 by the international magazine Business Destinations. The Managing Director of the Duty-Free Store is Þorgerður Þráinsdóttir.

Tern Systems Ltd.
Tern Systems develops and manufactures software for air navigation services. These are solutions that are used in the operation of air traffic control centres, flight control towers and in training flight controllers. Systems from Tern Systems are used in Iceland, Ireland, South Korea, Spain, Morocco and Indonesia.

The company employs 50 employees in its main offices in Iceland. The Managing Director of Tern Systems is Magnús Þórðarson.

Domavia Ltd.
Domavia hosts some of Isavia's property assets. Sveinbjörn Indriðason, Director of Finance at Isavia, holds powers of procuration for the company.

Suluk ApS
Suluk is a private limited company in Greenland owned by Isavia. The company is responsible for managing air navigation services in Greenland. Sveinbjörn Indriðason, Director of Finance at Isavia, holds powers of procuration for the company.

COMMUNICATIONS BETWEEN SHAREHOLDERS AND THE BOARD

One shareholder, the State Treasury, holds all shares, and the Minister for Finance has all shareholder rights. Notices of shareholder meetings are sent to a contact at the Ministry of Finance and Economic Affairs. The meeting is the main venue for providing information to the shareholder who holds the supreme authority of the company. The Chairman and Managing Director have met with the Minister or a representative from the Ministry. The Board conducts itself in accordance with "The general policy on state ownership of limited liability and partnership companies." The company releases press releases on the company's performance and other matters pertaining to its operation, and the annual financial statements and six-month interim statement are published on the website of the company.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has submitted a comprehensive risk policy for the company and defined the major operational risks. The main financial risks for the Group are exchange rate risk, interest risk and indexing risk. A special Risk Committee is active and is authorised by the Board to determine the scope and nature of risks and profit analysis for projects and ventures that could have significant effects on operations and financial position. The Risk Committee sends reports to the Board on a regular basis. The company does not employ an internal auditor, but the company's auditors carry out limited audits of company processes.

CODE OF ETHICS

Isavia's code of ethics applies to all employees and management of the company and is an integral part of all employment contracts. The code is accessible to all employees on the intranet of the company and on the website isavia.is/um-isavia. In addition, there is a separate section on disqualification in the Board's Rules of Procedure and in the 2017 Corporate Governance Statement. The documents can be accessed on the website isavia.is/um-isavia/stjorn.

ISAVIA IN THE SOCIETY

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Isavia is responsible for the operation and maintenance of the infrastructure that is the basis for aviation services in Iceland, connections to the wider world and flights between three continents in a large international area. The operation is of considerable national interest. The employees, moreover, make every effort to conduct their work in a safe and efficient manner in harmony with the community.



CORPORATE SOCIAL RESPONSIBILITY (CSR) POLICY

THE COMPANY'S CSR POLICY IS GROUNDED IN EXPECTATIONS ON CSR AS STATED IN THE GENERAL STATE OWNERSHIP POLICY, THE ACT ON ANNUAL ACCOUNTS AND THE NEW ACT ON PUBLIC PROCUREMENT (120/2016), TO MENTION A FEW SOURCES. THE COMPANY HAS ESTABLISHED THE FOLLOWING POLICY AND GOAL FOR ITSELF AS REGARDS CSR:



Policy:

Isavia promotes equilibrium between the economy, environment and society with sustainability as a guiding light.

Objectives:

Isavia works actively and consistently towards the following:

- Ensure good aviation services in Iceland and perform its role in society in a safe and efficient manner.
- Promote employee satisfaction and a good working environment.
- Develop an operation that is sustainable in the long term in co-operation and consultation with customers and other stakeholders.
- Treat the environment in a responsible and sustainable manner, reduce the company's carbon footprint and thereby contribute to the reduction of its environmental impact.
- To publish information on CSR in accordance with the UN Global Compact principles and GRI.



UN GLOBAL COMPACT

Isavia became a member of the UN Global Compact and UN Global Compact Nordic in 2016. By participating, Isavia undertakes to ensure that its policies and work practices are in accordance with the ten basic principles of the United Nations on human rights, labour, environment and anti-corruption. The company will submit its first progress report to the United Nations in 2017.

RESPONSIBLE TOURISM

Isavia is a sponsor in an promotional project on responsible tourism. The project includes more than 260 companies in tourism and is intended to promote environmental protection and social responsibility. The sector has joined hands to show solidarity and responsibility in developing a strong industry for the future.



FESTA

Isavia is a member of Festa, the Icelandic Centre for Corporate Social Responsibility (CSR). The goal of Festa is to raise awareness of CSR in Icelandic companies and in the community and encourage research in this field.

STAKEHOLDERS



ISAVIA FOCUSES ON EXTENSIVE COLLABORATION WITH THE STAKEHOLDERS WHO RELY ON THE SERVICES OF THE COMPANY AND WHO ARE AFFECTED BY THE OPERATION. THE OPERATION HAS AN IMPACT THROUGHOUT THE COUNTRY AND ON ALL ITS INHABITANTS. ISAVIA HAS IDENTIFIED OVER A HUNDRED STAKEHOLDERS THAT CAN BE CLASSIFIED AS CUSTOMERS, EMPLOYEES, THE SOCIETY, THE AUTHORITIES AND SUPPLIERS.

CUSTOMERS

The company's main customers are aircraft operators that use airports and flight navigation areas; operators at the airports, such as flight services entities, shops, caterers, car rentals and coach service companies; and last but not least, passengers.

Communications with users and operators occur first and foremost during regular meetings. Communications with passengers are the direct interactions of the company's employees at airports and using all main communication formats: telephone, e-mails, websites and social media and through regular customer surveys.

Aircraft operators

Communications with airlines that operate at Isavia airports take place during regular user committee meetings to which all users are invited, as well as during private meetings with each of them as needed. The airport user committees operate in accordance with the provisions of the Aviation Act and regulations. These consist of representatives from all the airlines that use the airport regularly and their agents. The meetings are an opportunity for users to discuss their views before making important decisions on operations, quality of service, fee collection, new construction, tower services or other issues that have an impact on their important interests. The Keflavik Airport User Committee meets as often as necessary but never less than once a year. As a rule, the user committee of the domestic airports meets once a year. Consultation meetings are held once a year with the users



of the flight navigation services as regards operations and investments. Consultation meetings with users of other aspects of flight navigation services also take place under the auspices of the ICAO Planning Group (NAT-SPG) for the North Atlantic. Regular meetings are held with users, as are communications with individual users or representatives of user groups if considered necessary. Isavia's partner, the Icelandic Meteorological Office, has a role to play in such user consultation as regards weather information and is the monitoring body as regards volcanic eruptions and other natural disasters.

Operators at Keflavík Airport

Communications with operators at Keflavík Airport are carried out during joint meetings or with each operator. Fixed group meetings are held with retail operators and caterers four times a year, performance meetings with each operator are held 3-4 times a year and store manager coffee meetings are held ten times a year. Larger user meetings for all stakeholders and service providers at and near the airport are, at present, held in public. Two such meetings were held in 2016.

Passengers

Communications with passengers are first and foremost with the help of various media where enquiries are received and responded to. Isavia regularly performs marketing and service surveys at its airports. Standardised service surveys have been carried out at Keflavík Airport for the past 12 years. The survey in question is an international survey created by the Airports Council International (ACI) and measures passenger satisfaction at more than 250 airports worldwide and provides a good comparison. Data on 34 service aspects in the airport are collected throughout the year. The results are published on a quarterly basis, which allows a swift response if anything is found that needs remedial action. Passenger satisfaction is measured on a scale of 0-5. Keflavik International Airport has generally improved its position in recent years. There have been, however, limited periods where the overall satisfaction has fallen, and these can usually be traced to disruptions due to renovations of the terminal. Other surveys are carried out as needed in addition to these regular surveys.



Amabadama performed at the Isavia Annual Celebration in 2016. The new logo was also adopted on the same occasion.

EMPLOYEES

Communications with and between employees is first and foremost through regular staff meetings with the Managing Director, the company's intraweb and events held by the staff association. In order to further increase information flows to employees and provide them with the opportunity to talk about their work and exchange ideas, a new intraweb was launched in 2015 under the name of Flugan (the Fly). The intraweb is designed as a social media service

registrations of events, training courses and entertainment in the company. It should be noted that Flugan was selected as the best intraweb during the Icelandic Web Awards in 2015 and was nominated for the same award in 2016. The staff association of Isavia and its subsidiaries, Staffið (the Staff), is responsible for a diverse and dynamic social life and organises numerous events for its members, such a family outing during the summer, a Christmas buffet, trips to the cinema and bowling. In addition, the association has negotiated discounts in various companies for its members. All employees are eligible for membership in the staff.

The company focuses on providing a good and family friendly working environment, effective education and training and positive morale. Systematic efforts are spent on renewing operating units. Last year, for instance, there were new facilities brought into use in the flight control centre, new facilities for the employees of airport security at Keflavík Airport and, at present, new facilities are being constructed for the employees of airport services at Keflavík Airport.

STAFFIÐ IS RESPONSIBLE FOR A DIVERSE AND DYNAMIC SOCIAL LIFE AND ORGANISES NUMEROUS EVENTS FOR ITS MEMBERS.

connecting employees. Everyone can make entries and upload pictures and videos they wish to share with their colleagues. Flugan is also a dynamic news service for management and a simple way to get information to all employees at the same time. Employees, moreover, can retrieve various tools and equipment to use in their work and manage

SNAPSHOTS FROM EVENTS



1



2



3



- 1. Isavia's cycling day in Reykjavík
- 2. Christmas display at Keflavík Airport
- 3. Advancement days at Reykjavík University
- 4. Isavia employees at the Reykjavík Marathon
- 5. Team Isavia participated in WOW Cyclothon.



Grímsey Airport
66° 32' 52.3644" N
18° 1' 15.2544" W

THE SOCIETY

There are extensive communications with local authorities and regional associattions in the neighbourhood of the airport such as the Suðurnes municipalities, the City of Reykjavík, Akureyri, Ísafjörður, Fljótshálsa, Þórshöfn, Vopnafjörður, Húsavík and Vestmannaeyjar. It is vital that information provision to the municipalities is as good as possible, as the activities of the company can have a considerable effect on the local community. This is particularly true of the Suðurnes area, as Keflavik International Airport is the largest workplace in the area. Communications have been carried out at meetings with

IT IS VITAL THAT INFORMATION PROVISION TO THE MUNICIPALITIES IS AS GOOD AS POSSIBLE, AS THE ACTIVITIES OF THE COMPANY CAN HAVE A CONSIDERABLE EFFECT ON THE LOCAL COMMUNITY.

the town and municipal authorities, as well as other stakeholders. There is also close collaboration with the marketing agencies in the north and east Iceland areas where, for example, work has been carried out on marketing efforts on direct flights to Akureyri and Egilsstaðir in collaboration with the Icelandic Route Development Fund.

Isavia also collaborates extensively with entities in the tourism sector such as the Travel Industry Association (SAF),

the Icelandic Tourist Board, Promote Iceland and the Tourism Task Force. In addition, the company is a member of Iceland Tourism. Isavia is also an active member of the port and transport group of the Icelandic Ocean Cluster, a collaborative forum for companies, most of which are directly involved in transport and port operations.

Isavia has been one of the sponsors of the consultation venue Arctic Circle from the very beginning, and employees take an active part in discussions on the issues facing the Nordic region, whether in connection with air traffic in the Nordic area or in connection with ideas of developing a rescue services hub in Iceland.

In addition, Isavia regularly holds open meetings to provide information to the public and entities within the tourism sector as regards the plans of the company at Keflavík Airport, such as on construction and traffic forecasts within the travel industry. Isavia employees have also held lectures at numerous open meetings that have been held by other entities.

In October 2016, the company held an open consultation meeting in the Hljómahöll venue in Reykjanesbær to present a draft of the new zoning plans for the east and west areas of Keflavík Airport. The meeting was attended by approximately 80 persons who took part in discussion groups on different aspects relating to the planning work.

In the field of flight navigation services, Isavia collaborates closely with service providers and adjacent flight control centres. The company participates in Borealis, a collaborative venue for nine flight navigation service providers in North Europe.

Main organisations of which Isavia is a member

Foreign organisations:

- Airport Council International (ACI)
- NAT-SPG, co-operative forum of states within the ICAO NAT Region
- Borealis, co-operative forum for flight navigation service providers in northwest Europe
- Civil Air Navigation Services Organisation (CANSO)

Icelandic organisations:

- Travel Industry Association
- Confederation of Icelandic Employers
- Iceland Chamber of Commerce
- Association of Reykjanes Employers
- American-Icelandic Chamber of Commerce
- French-Icelandic Chamber of Commerce
- Iceland Tourism
- Iceland Ocean Cluster
- Festa, Icelandic Centre for Corporate Social Responsibility

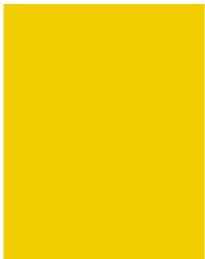
Professional associations:

- Stjórnvísir
- The Project Management Association of Iceland
- Icelandic Bar Association
- Flóra, Association of Human Resources Managers



1

1. Open meeting on the zoning plans for the east and west areas of Keflavík Airport.
2. Isavia has, for a number of years, supported Landsbjörg Search and Rescue to strengthen accident response.



2

Civil protection and accident response

Isavia is a member of the Civil Protection Control Centre and plays a key role as regards response plans for search and rescue in the Icelandic air traffic control area. Response drills at the airport are an important part of Isavia's preparedness as well as civil protection measures and their development. As a rule, four air accident drills are held every year, and participation in them has always been excellent. Three drills were held in 2016, at Keflavík Airport, Reykjavík Airport and Þórshöfn Airport. More than 1,000 people from all response units took part in these drills. Since the company began holding regular drills at airports, the response plans of the Civil Protection unit for multi-party accidents have developed in tune with the working procedures used in airport drills. The company's drills, therefore, have become a consultation venue for response entities for the development of knowledge and procedures that have been codified in regulations and the Act on Civil Protection.

Isavia and Landsbjörg Search and Rescue Grant Fund

The Isavia and Landsbjörg Grant Fund has been active since 2012 and has allocated close to ISK 40 million to 25 search and rescue teams. The goal is to strengthen accident response throughout Iceland. The Fund's latest project is to support the manufacture of special group accident carts with all the principal equipment needed, such as in the case of coach accidents. The employees of the company have recorded the equipment available in each part of the country, and the carts will be delivered to the search and rescue teams where there is the greatest need for them. Isavia has collaborated successfully with search and rescue teams for many years. These teams are the foundation of emergency response in Iceland, including at airports. For further information, see isavia.is/um-isavia/styrkveitingar.



Children in north Iceland accept a sports grant.

THE AUTHORITIES

Isavia's Community Fund

The Community Fund awarded numerous grants to various projects during the year. The grants focus on environmental issues, humanitarian issues, preventative measures, aviation matters, arts, culture and education. In addition, the company supports various other charities by providing space for collection boxes in the airports. A list of those receiving grants can be seen on the website of Isavia at isavia.is/um-isavia/styrkveitingar.

Isavia's University Grants

Grants have been allocated to students who are taking their master's degrees and doctorates at Reykjavik University and the University of Iceland. The company allocated more than ISK 11 million to seven master's degree research projects in 2016. For further information, see isavia.is/um-isavia/styrkveitingar.

Startup Tourism

Isavia is one of the sponsors of the project Startup Tourism, which gives start-up companies in the tourism sector a chance to realise their business ideas. Ten companies were selected for participation in what has been called a business accelerator, and their representatives were given a ten-week training course by various experts to further develop their business ideas.

Communications with the authorities take many forms. The state is the owner of the company, and it follows the general owner policies of the state in its operations. The Ministry of Finance and Economic Affairs has overall control of the share, and formal communications are carried out at shareholders' meetings and the Annual General Meeting. Other communications with the owner take place during meetings that are convened as needed.

The Ministry of the Interior plays a two-fold role in connection with operations of Isavia: on the one hand as the professional ministry for air traffic issues and, on the other, as a business partner of the company as regards the operation of the domestic airport system. The company has a seat on three committees and councils operated by the Ministry; the professional council on flight issues, the Flugvirkarráð council and has a observer's seat in the transport council. The company has regular professional communications with the Ministry of the Interior as regards aviation issues as well as close collaboration as regards the implementation of the service agreement.

In addition, Isavia is responsible for the implementation of two international agreements on flight navigation services.

The "Joint Finance" agreement applies to flight navigation services within the Icelandic flight information region (Reykjavik FIR) with 24 other states, and the International Civil Aviation Organisation (ICAO) is its monitoring body. The other agreement is with the Danish authorities for flight navigation services in part of the flight information region of Greenland (Søndrestrøm).

Meetings are also held a few times a year with the Ministry of Industries and Innovation in connection with flight connections and tourism issues. The Ministry has established a Flight Development Fund that has the purpose of strengthening international flights to Akureyri and Egilsstaðir, and Isavia has a representative on the Board of the Fund. Meetings are also held with the Ministry for Foreign Affairs and the Icelandic Coast Guard in connection with defence-related operations at Keflavík Airport and the airport's organisational issues.

Isavia has a great deal of interaction with many public bodies due to the diversity of the company's activities. The greatest interaction is with the Icelandic Transport Authority, which issues operating permits for airports and flight controls and is responsible for the appropriate supervision of implementation and operation. Other monitoring bodies of which mention may be made are the National Centre for Hygiene, Food Control and Environmental Protection, the Construction Authority, the Administration of Occupational Safety and Health, the National Planning Agency and the Environment Agency. Many public bodies have operating units within or are in close collaboration with the company, such as the police, the Directorate of Customs, the National Civil Protection Authorities and the Coast Guard. The municipal bodies connected to the operation of Isavia are mainly the health authorities, fire protection and fire brigades.

Isavia is also monitored by and collaborates with foreign entities. Of these, mention may be made of the International Civil Aviation Organisation (ICAO), a sub-organisation of the United Nations which establishes international standards for all main aspects of civil aviation and monitors the performance of states and service providers. The Organisation, moreover, monitors the performance of the previously mentioned "Joint Finance" agreement. Due to the company's operations in Greenland and the Faeroe Islands, Isavia is monitored by the Trafik- og byggestyrelsen in Denmark, and due to collaboration on flight communications services in the North Atlantic, there is close collaboration with the Irish Aviation Authorities. In the arena of the Borealis collaboration, the company collaborates with the European Aviation Safety Agency (EASA).

SUPPLIERS

Since Isavia is owned by the Icelandic state, the company is subject to the Act on Public Procurement. The company's main supplies may be divided between building construction, service purchases and operating purchases.

Communications with suppliers can take many forms, such as in meetings, by e-mails and telephone calls. They mostly involve negotiations, follow-ups of agreements or individual goods purchases. The company is working on the publication of a code of ethics that is based on e.g. the provisions of the international initiative UN Global Compact.

Rulings and court judgements involving Isavia ohf. in 2016

No court judgements or rulings have been made where the company was considered to have violated Acts of Law or rules in 2016. The following court judgements and claims relate to the company: Court case due to the decision of the Competition Authority which was directed at the company and ended with a dismissal following the opinion of the EFTA court at the beginning of 2016. In addition, the District Court agreed with the conclusions of the Information Committee as regards the dispute on the interpretation of legislation on the delivery of data. The company was summoned as an alternate defendant together with the Confederation of Icelandic Employers and the state due to the Act of Law that was passed to put a stop to the wage dispute with the Icelandic Air Traffic Controller Association but was acquitted.

There were four complaints due to invitations to tender. In two of the cases, the complaints committee has accepted the company's position, in one case, an interim decision has been reached accepting the company's position and one case is still pending. Two complaints were submitted due to a dispute on the delivery of data; the company's position was accepted in one case and not in the other.

WAR RELICS IN ÖSKJUHLÍÐ

Isavia has, in co-operation with Reykjavik City authorities, set up information signs in various locations in Öskjuhlíð. Öskjuhlíð and Nauthólsvík have a range of relics from the time the British and the Americans occupied Iceland in WW II from 1940–1945. The British built an aircraft base in Reykjavik in 1940–1942. Öskjuhlíð played a key role in the defence of the city and the airport, and there still stand various constructions relating to them and the airport operation.

Friðþór Eydal prepared the photographs and texts, Sighvatur Halldórsson, art director at Hvíta húsið advertising agency, did the layout and Árni Tryggvason, designer, designed the base for the signs.



INCREASED SCOPE

ON THE WHOLE, ISAVIA'S SCOPE OF OPERATIONS HAS INCREASED LATELY IN ALL THREE MAIN UNITS OF ITS CORE OPERATIONS. TRAFFIC AT KEFLAVÍK AIRPORT HAS INCREASED BY APPROXIMATELY 40%, AIRPORT OPERATIONS HAS INCREASED BY AROUND 8% AND FLIGHT NAVIGATION SERVICES BY ALMOST 14%.

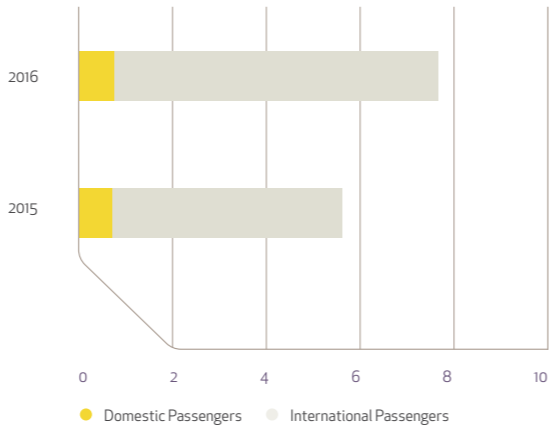
Three aircraft operators maintained scheduled flights within Iceland, i.e. Flugfélag Íslands, Flugfélagið Ernir and Norlandair. Other aircraft operators who used the services provided by the company's domestic airports were Mýflug, Atlantsflug and Norðurflug. Vesturflug / Blue West and Helo operate a helicopter service in the company's airports.

Flugfélag Íslands has flights from Reykjavík to several locations in Greenland and Atlantic Airways to the Faeroe Islands. In addition, the Icelandic Flight Academy (Flugskóli Íslands) and Flugfélagið Geirflugl have facilities at Rekjavík Airport. BIRK Flight Services and Flugfélag Íslands are responsible for ground handling services at Reykjavík Airport.

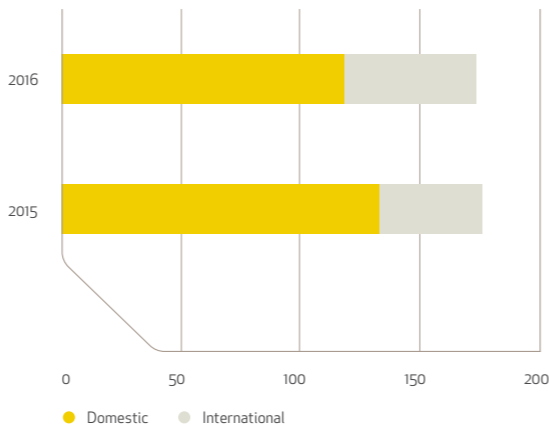
At Akureyri Airport, Norlandair has regular scheduled flights within Iceland and scheduled and chartered flights to Greenland. In addition, travel agencies in the area offer direct flights from Akureyri to a few destinations overseas. Circle Air offers chartered and sightseeing flights from Akureyri Airport. Icelandair has flown between Akureyri and Keflavík Airport in connection with the company's main destinations in Europe and North America, although Flugfélag Íslands has at present taken over this route. In addition, the Akureyri Aviation Academy (Flugskóli Akureyrar) is based at the airport. Flugfélag Íslands and South Air are responsible for ground handling services at Akureyri Airport.

At Egilsstaðir Airport, the travel agency Discover the World offered direct flights to London last summer. Flugfélag Íslands is responsible for ground handling services at Egilsstaðir Airport.

The largest customers of Isavia's flight navigation services are Icelandair, WOW Air, United Airlines, Emirates, Delta, SAS, Lufthansa, British Airways, Air Canada and Qatar Airways. These airlines fly the greatest number of kilometres within the Icelandic flight traffic control area. The Icelandic companies are the most active at Keflavík Airport and take advantage of the flight navigation services there.



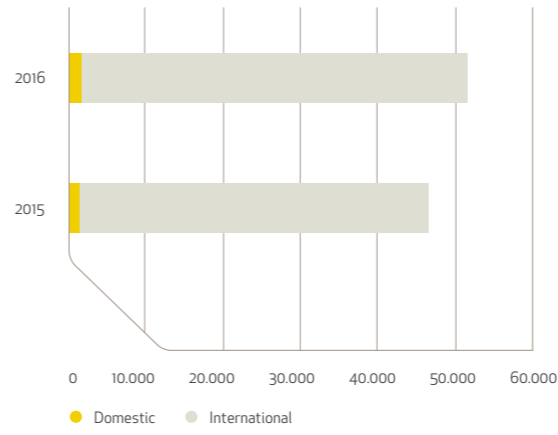
Passenger movements in millions



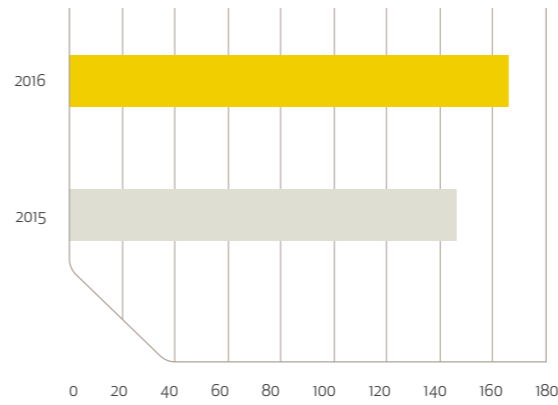
Aircraft movements in thousands

The increase in the number of customers at Keflavík Airport has continued. During summer 2016, 25 airlines operated from the airport to more than 80 destinations. Ten airlines operated through-out the year to and from Iceland in 2016: Icelandair, WOW air, Wizz Air, Air Berlin, Delta, Norwegian, easyJet, SAS, British Airways and Vueling.

There are four ground handling companies operating at Keflavík Airport, namely IGS, Airport Associates, ACE Handling and South Air.



Goods transportation in tonnes



Number of flights through air traffic control area in thousands

Numerous passengers take advantage of Keflavík Airport as a transit airport, and both WOW air and Icelandair use the airport for such purpose on routes between Europe and North America. The minimum flight connection time for passengers at Keflavík Airport is 25 minutes.

Isavia has, with the assistance of an incentives system, been quite successful in getting airlines to fly to Iceland over the winter months, thereby distributing the load over the year. In addition, Isavia has marketed time slots outside peak hours each day with the objective of better utilising the investments in place in Keflavík Airport.

Flight statistics

Passenger movement through the airports of Isavia overall were 7.6m in 2016, an increase of 36% from 2015. The number of international passengers increased from almost 4.9m to almost 6.9m, or approximately 40% between years. The greatest increase was at Keflavík Airport and has never been as great over the course of a single year. The number of domestic passengers increased during the same period from almost 693,000 to more than 749,000, or approximately 8.2%.

Flight movements on Isavia airports were almost 173,000 in 2019. There was a decrease of almost 2% from the previous year, which can partly be attributed to the use of larger aircraft for domestic flights. International flight movements on Icelandic scheduled flights airports were almost 55,000, an increase of almost 27%. In addition to the increase at Keflavík Airport, there were increases at Akureyri and Egilsstaðir Airports. Flight movements within Iceland on scheduled flights airports were more than 118,000, a decrease of 11% between years due to the use of larger aircraft, as stated earlier.

In total, almost 52,000 tonnes of goods were transported through the airports in 2016, an increase of more than 11% from the previous year. Goods transportation between countries was almost 50,000 tonnes in 2016, an increase of almost 11% between years. Goods transportation within Iceland was almost 1,800 tonnes in 2016, an increase of approximately 11% from 2015.

Approximately 166,000 aircraft passed through the Icelandic air traffic control area, an increase of around 13.5% from 2015. A total of almost 235m kilometres were flown in the Icelandic air traffic control area in 2016.

#WHENINKEF

- 1. Keflavik International Airport improved services for cyclists.
- 2. Packaging station for customers in the retail area of Keflavik Airport.
- 3. A substitutes bench was installed for the duration of EM.
- 4. Jónsi made an unexpected appearance, playing for passengers, who all received an Easter egg.
- 5. Creative Take Off was Keflavik Airport's contribution to DesignMarch in 2016. Selected Icelandic designers were given the opportunity to display their wares.



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PASSENGER AND TRAFFIC FORECASTS



Isavia prepares passenger forecasts at least once a year for the company's core operations. These forecast the number of passengers using domestic airports and Keflavik Airport. In addition, an assessment is made of traffic through the Icelandic air traffic control area.

Isavia prepares a passenger forecast for Keflavik Airport at the end of each year. The forecast is based on information about time slots that airlines have reserved for the upcoming summer and the winter schedule that they have prepared. Major airlines have been very co-operative in providing information about expected seat availability.

Isavia focuses on sharing information that the company collects with tourist services entities, analysts and the public and holds open meetings for such purpose.

"ISAVIA FOCUSES ON SHARING INFORMATION THAT THE COMPANY COLLECTS WITH TOURIST SERVICES ENTITIES, ANALYSTS AND THE PUBLIC AND HOLDS OPEN MEETINGS FOR SUCH PURPOSE."

The forecast for domestic airports is prepared once a year at the end of the year. It is based on information obtained from the largest users of the airports and is used in connection with operating plans and the preparation of fee lists.

Isavia assesses the traffic in the Icelandic air traffic control area in accordance with information from a working group entitled the Economic Financial Forecasting Group (EFFG). All service providers and representatives of associations of the users of the service in the North Atlantic are party to the working group, and it prepares a forecast for air traffic over the North Atlantic.

The passenger forecast for 2017 assumes that passenger movements will increase by 28% at Keflavik Airport, rising from 6.8m to 8.75m, or approximately two million between years. The division of passengers in recent years has been fairly equally divisible into three parts: arrivals, departures and transit passengers who only pass through the airport. It is assumed that this will change in 2017, when for the first time, the number of transit passengers will exceed the number of arriving or departing passengers. If the plans of the airlines Icelandair and WOW air are realised, the proportion of transit passengers may reach more than 46% by the end of 2040.

HUMAN RESOURCES

BY THE END OF DECEMBER 2016, THERE WERE 1,081 EMPLOYEES WORKING FOR ISAVIA’S PARENT COMPANY, I.E. EXCLUDING SUBSIDIARIES. OF THESE, 68% WERE MEN AND 32% WERE WOMEN. THE AVERAGE AGE OF EMPLOYEES IS 41 YEARS, AND THE AVERAGE LENGTH OF SERVICE IS 7.86 YEARS.

Employee turnover was 8.84% in 2016. Employee turnover varies somewhat between departments and divisions and was the highest in the Keflavík Airport Operations Division and least in the Finance Division and in Human Resources and Performance. A total of 252 summer employees were recruited in 2016, the majority to the Airport Aviation Security Department at Keflavík Airport, or 75%, and the rest to the company’s other departments throughout Iceland.

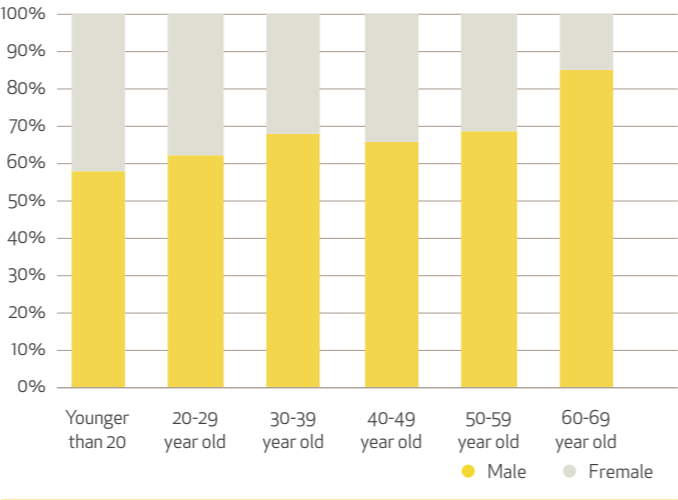
All managers at Isavia are from the company’s nearest environs, which is defined as being Iceland in its entirety.

Education

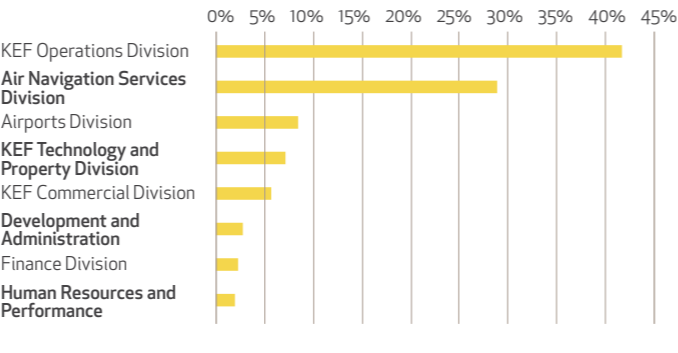
The company maintains extensive and ambitious educational activities with the goal of developing the knowledge and skills of employees in accordance with the policies and values of the company. The educational work can be divided into two categories, specialised and general education.

The company’s uniqueness can be seen in the fact that the majority of its employees receive basic training in the company. The education is specialised and is intended to ensure the appropriate training of employee groups who require special rights or special skills, such as in the field of air navigation, airport security services and ground handling services. The training schedules for these groups are approved by the Icelandic Transport Authority, as there are strict rules that apply to international airports.

The training department in the Flight Navigation Division is responsible for training air traffic controllers, aeronautical station operators, air communications experts and flight data experts. An agreement has been reached with the Meteorological Office for meteorology training for the company, with the exception that the company’s meteorologists are responsible for the meteorology training of aeronautical station operators.

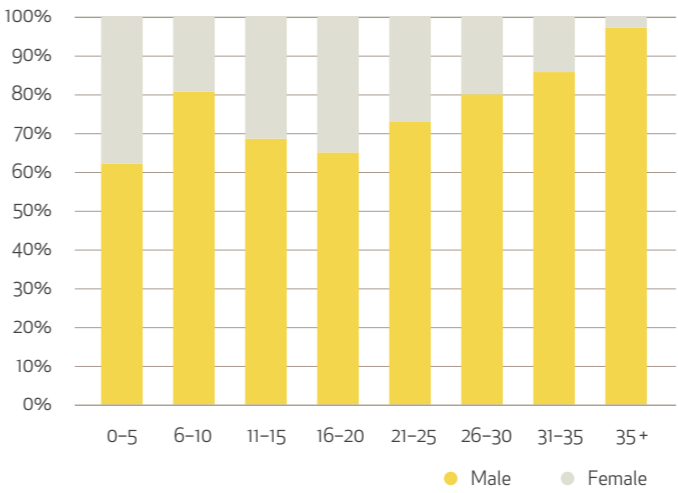


Physical age



Employees in each division

Proportion of total number of employees



Length of service in years

Isavia’s Airport Programme has the goal of ensuring that employees have gained the ability to undertake a range of airport services.

The Airport Security Programme is intended to ensure that employees have gained the skills to undertake airport security work.

For other groups, regular training and continuing education is a part of daily work, and employees are encouraged to attend courses and other related education. The company continually seeks to provide education that strengthens employees both professionally and personally.

Isavia’s teaching methods are under continuous development, and IT is used extensively. An example of this is the Moodle learning platform. In recent years, the trend has increasingly been to offer a blend of study techniques where the coursework is through a distance learning site and the practical training is at the place of work.

The labour market

Isavia operates in the general labour market and follows general collective wage agreements which the Confederation of Icelandic Employers have negotiated with numerous unions on behalf of the company. Special collective wage agreements have been made with the following unions: Landssamband slökkviliðsmanna (LSS) (firefighters), Félag flugmálastarfsmanna ríkisins (FFR) (state-employed aeronautics employees), Stéttarfélag í almenningþágu (SFR) (public servants) and Félag íslenskra flugumferðarstjóra (FÍF) (flight traffic controllers).

Written contracts of employment are made with all employees specifying their wages, working hours and other rights and obligations. All employees enjoy physical training grants and mandatory accident insurance, parental leave and maternity/paternity leave. Sick leave rights are linked to the relevant collective wage agreement.

Absence due to illness was 4.9% of all man-hours in 2016. Occupational diseases, however, are not specifically recorded by Isavia.

The company complies with laws and regulations on health and safety, human rights and child labour. The company does not employ persons under the age of 18 and pays all public charges. No work paid under the table is available at Isavia.

Isavia has established policies and response plans as regards bullying, harassment and violence in the workplace. The policy is accessible to all employees on the company intranet and is, moreover, presented to all new employees in the new recruit presentations that are held for all new employees.

No formal notifications or comments were submitted in 2016 about violations of equal rights, bullying or harassment.

The notice of termination of employees is in accordance with the applicable collective wage agreement but varies according to length of service and age. The right to terminate employment is mutual, and all information is in writing.

“THE OBJECT OF THE EQUAL RIGHTS PROGRAMME IS TO ENSURE THAT ALL POSITIONS ARE ACCESSIBLE TO BOTH GENDERS, THAT CONSIDERATION IS TAKEN OF THE BALANCE BETWEEN FAMILY LIFE AND WORK...”

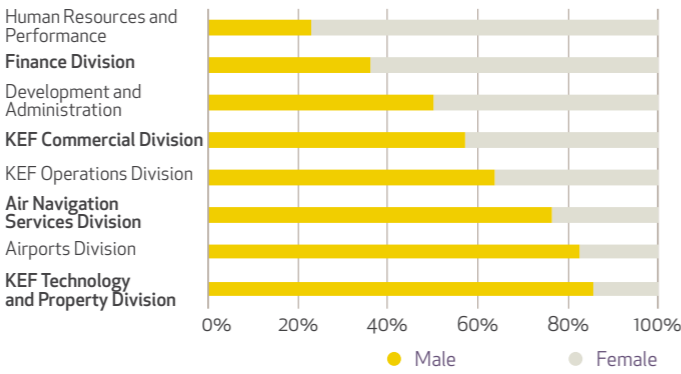
Equal rights

The object of Isavía’s equal rights programme is to ensure full equality between men and women in the company’s workplaces, with the goal of taking full advantage of staff abilities, energy and knowledge, free of gender-based discrimination. The object of the equal rights programme is to ensure that all positions are accessible to both genders, that consideration is taken to balance family life and work, that bullying and sexual harassment is prevented, that gender ratios are balanced in management positions and that equal rights are ensured in determining wages. Particular care is always exercised to encourage both genders to apply for available positions in employment advertisements.

Isavia’s equal rights programme is accessible to all employees on the company intraweb and is presented to all new employees in the new recruit presentations. The equal opportunities representative ensures that the company’s goals and schedules in equal opportunities are followed and provides advice to management and employees. The results of a review of achievements in equal rights issues are presented annually to the Board of Directors.

Isavia was awarded PwC’s gold medal in the company’s equal wage audit in 2016, the second year in a row. The certification confirms that there is equal pay at Isavia, with less than 3.5% difference between genders. The company has placed great importance on the equal pay of men and women, and this has been the result.

All employees are, by law, entitled to payments from the Maternity/Paternity Leave Fund. A total of 55 employees took



Gender proportions in different divisions

	Male	Female	Total	Average
Manag. Dir. and Deputy Manag. Dir.	8	3	11	49
Department managers	16	9	25	51
Other managers	47	7	54	48
Total	71	19	90	

Gender division of management



Isavia was awarded PwC’s gold medal for wage equality in 2016, the second year in a row.

maternity/paternity leave in 2016, 24 women and 31 men. They all returned to work at the end of the maternity/paternity leave.

The gender division differs considerably between the company’s operating divisions. It is the most equal in the Keflavík Airport Business Division and in the Development and Administration Division. Men are a large majority of employees in other divisions, although efforts are being made to increase the number of women. The changed arrangements of the basic study programme for flight traffic controllers has already led to a higher proportion of women entering the programme, and there are hopes that it will do so even further.

Health and safety

Isavia operates a safety committee that addresses the health and safety issues of employees. In the event of an accident, the health and safety representative is responsible for recording and analysing the incident and proposing improvements to facilities or procedures in order to prevent a re-occurrence. A new employee was added in 2016 to work on improving safety in the operating units of the company.

Notifications of work-related accidents have increased between years in conjunction with the increased scope of operations and increase in the number of employees. At the same time, the registration of accidents and follow-up have been improved, and this may explain part of the increase. There were 39 work-related accidents recorded last year, none of which, however, were considered major.

A special risk assessment has been prepared as regards working conditions, and a schedule for health protection has been prepared in co-operation with Vinnuvernd, among others. Employees can contact the service desk of Vinnuvernd and obtain advice on their own illness or that of family members. In addition, Vinnuvernd’s nurse holds regular consultations at the company’s largest operating units.

Isavia encourages and supports employees to engage in regular physical exercise and to live a healthy life. The company invites permanent employees either to attend and record their visits to certain fitness centres or to receive a grant for physical exercise amounting to ISK 25,000 a year. Summer employees may attend and register their visits to fitness centres in the same manner as permanently employed staff.

End of employment

For a general employee, the end of employment is regarded as the end of the month in which the employee reaches the age of 70. The members of the Icelandic Air Traffic Controller Association, however, retire at the age of 63. The company offers end-of-employment counsel for those who are nearing their retirement age, and their spouses are invited as well. The course is a venue to obtain useful information and discuss the changes that may be expected and to spend a pleasant time with colleagues, spouses or friends and the representatives of the company. Ten employees participated in such a course in 2015.

ISAVIA AND THE ENVIRONMENT

- 46 — ACTIONS IN CLIMATE ISSUES
- 48 — USE OF MATERIALS
- 48 — ENERGY
- 48 — WATER
- 49 — BIODIVERSITY
- 52 — EMISSIONS
- 52 — AIR QUALITY
- 53 — DRAINAGE
- 53 — WASTE
- 54 — NOISE
- 55 — DE-ICING MATERIAL

The company's environmental policy may be found on Isavia's website, together with detailed information on the company's environmental work. The following section will describe the main tasks undertaken in 2016.

ACTIONS IN CLIMATE ISSUES



Isavia made the decision to encourage carbon offsetting in the company. The decision was made to start the work at the company's largest workplace, Keflavík Airport. Airports Council International (ACI) has a management programme to reduce carbon emissions at airports. Keflavík International Airport is a participant in this work and completed the first step of three toward the airport's Airport Carbon Accreditation in 2016. The carbon footprint of the operation and

environmental impact on its environs has thereby been identified. Work on the second step of the accreditation is underway and is expected to be completed in 2017. This will require the airport to submit an action plan for the reduction of carbon emissions from the operation. This accords well with the declaration for actions in climate issues from the City of Reykjavík and Festa, Icelandic Centre for Corporate Social Responsibility, which the Managing Director of Isavia signed in November 2015.

ENVIRONMENTAL MANAGEMENT

Work on the certification of selected Isavia airports according to ISO 140001 is well underway. Environmental assessments have been carried out on the airports in Keflavík, Reykjavík, Akureyri and Egilsstaðir. In addition, an assessment has been carried out on the aviation communications centre in Gufunes. The assessments define important environmental aspects in the operation, and their impact on the environment is evaluated. An action plan will subsequently be issued to ensure continuous monitoring and management of the environmental aspects in question.

GREEN STEPS

Isavia is a participant in the project Green steps organised by the Environment Agency of Iceland. The project involves making the company's operations more environmentally friendly, increasing employee wellbeing, improving their working conditions and reducing operating costs.

In order to create a positive atmosphere for the project, a competition between operating units was launched to fulfil the green steps in which Isavia participates. The first three prizes for achievement have been awarded. A few operating units have completed the first step, one has completed the second and one unit has completed all three steps.

GRÆNÁS ENCOURAGES RECYCLING

Keflavík Airport's warehouse at Grænás in Reykjanesbær accepts furnishings and useable building materials from the changes made to the company's operating units. Equipment is recycled as much as possible in the operating units of the company, and whatever cannot be used is given to a third party or disposed of. The initiative is part of the green steps that Isavia has been adopting and has saved the company tens of millions of ISK every year.

USE OF MATERIALS

A major part of the company’s operation is dependent on the use of fuel. The greatest proportion can be traced to the servicing and maintenance of the runways and operating areas of airports. The scope of the operations is generally dependent on the weather and is independent of the number of passengers. There can be considerable fluctuations between years if winter services must be provided for many days during the year, as these machines require the most fuel.

Petrol	45,665 l	47,131 l
Diesel	751,722 l	714,574 l
Kerosene	25,000 l	45,574 l
Methane	198 l	27 l
Litres per passenger	1.48 l	1.06 l



ENERGY

Isavia’s operations are extensive, and tens of thousands of passengers use the company’s facilities on a daily basis. Last year, the company’s energy use corresponded to that of over 4,500 households, or 22,843,018 kWhrs. The use of hot water corresponded to the annual use of around 3,800 households, or 587,874 cubic metres. This use has been significantly decreased between years, or by 200,000 cubic metres. This reduction was first and foremost at Keflavík Airport, where better weather conditions have had a positive effect.

WATER

Fresh water is obtained from the distribution systems of the municipality in which the company operates.

Groundwater studies were performed at Keflavík Airport in autumn 2016, and samples were taken from wells in different locations within the airport area.

There are two settlement ponds at Keflavík Airport that have the role of collecting surface water, slowing its flow rate and cleaning it. The water is cleaned in that polluting materials float up, settle to the bottom or are filtered out through the soil. In addition, microbes and underground soil animals can encourage the degradation of materials and plant life growing near and in ponds may absorb them.



BIO-DIVERSITY

AN IMPORTANT PART OF AIRPORT OPERATION ARE VARIED SAFETY MEASURES, INCLUDING EFFORTS TO MINIMISE THE RISK OF COLLISIONS BETWEEN ANIMALS AND AIRCRAFT. ANIMAL LIFE IN THE AIRPORT AREA IS CLOSELY MONITORED, AND THEY ARE KEPT AWAY FROM THE RUNWAYS USING E.G. MEANS TO SCARE THEM AWAY AND HABITAT MANAGEMENT.



The registration of wildlife has been carried out for many years, although its scope differs between airports. The tendency of animals to enter the airport area also differs between airports. Most of the wildlife entering the airport area are birds, although there have been cases where reindeer, foxes and rabbits have had to be scared away. A list of the species that have been recorded in airport areas, classified according to the IUCN Red list of threatened species and their protective status in Iceland, can be seen on Isavia's website at isavia.is/um-isavia/umhverfisstefna-isavia. It should be noted, however, that these are the species that have been scared off the airport area, but not all the species that live within the area.

Although Miðnesheiði is among the larger nesting areas of the lesser black-backed gull, these are not protected. Grassland birds have also tended to try to nest in the airport area, and there have been attempts to lessen their attempts to enter the area by e.g. changing the vegetation by planting lupines and spreading organic fertiliser and seeding the area.

Scare actions are most common at the four international airports, i.e. Reykjavík, Akureyri, Egilsstaðir and Keflavík, given that all four locations are a short distance from nesting grounds. The total land area within the airport fences is over 30 square kilometres, and it is, therefore, not unnatural that birds and other animals tend to enter.

The diversity of the wildlife, however, differs between airports, and a great deal of attention has been paid to recording the scare tactics used and the development of wildlife at each airport. The scare tactics used certainly have an effect on the wildlife, but they are used to ensure the safety of aircraft and passengers and are, therefore, an integral aspect of air transport.

Foxes are the only wild land animal on and near the airport. Their number has, however, decreased in recent years, and sightings have been the exception. There were, nevertheless, a higher number of sightings in 2016 than previously. The majority of birds near the airport areas tend to be migratory birds, although ptarmigan nest nearby to a small extent.

The possible bird strikes registered during the past year were 43 at the airports operated by the company.



Vestmannaeyjar Airport
63° 25' 30.2844" N
20° 16' 8.7204" W

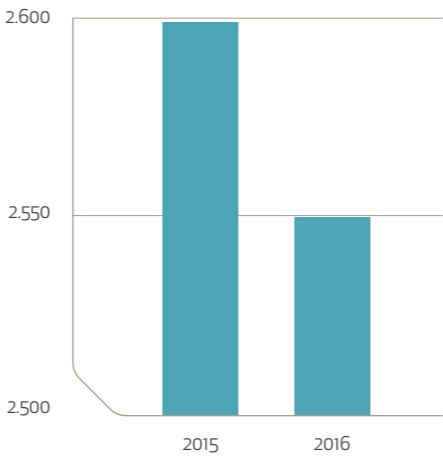
EMISSIONS

The direct emission of greenhouse gasses from the operation of the company can be traced to fuel use in the operation. Emissions fell from 2,599 tonnes to 2,550 of CO₂e., i.e. around 49 tonnes between 2015 and 2016. This corresponds to approximately 0.34 kg per passenger passing through the company's airports.

Direct greenhouse gas emissions from Isavia's energy use is next to none. All energy is either from district heating plants (geothermal) or from hydropower stations. In both cases, the energy in question is from renewable sources that cause no or very little emissions of greenhouse gases. Indirect emissions due to heat and electricity, therefore, are very slight if account is taken of electricity production by other means. Indirect emissions from energy use in 2016 was approximately 260 tonnes of CO₂.

Waste sent to landfills is considered as indirect greenhouse gas emissions, and in 2016, 1,222,277 kg of unsorted waste was sent to landfills. The assessed emission of carbon from landfill waste disposal from Isavia in 2016 was 709 tonnes of CO₂.

The company has set itself a goal that by 2020, its emission of the greenhouse gases will have decreased by around 10% per passenger based on the figures from 2015 and by 29% by 2030. In 2015, greenhouse gas emissions were 0.60 kg CO₂ equivalents, while in 2016, the emissions were 0.46 kg CO₂ equivalents, or a decrease of 24.5%, which fulfils the company's target much earlier than was anticipated. Account was taken of the emissions of CO₂ from the use of fossil fuels, production of electricity and sending waste to landfills. The decision to begin switching to electric cars at Isavia was made in 2016.



Fuel consumption
— CO2 emissions (t CO₂e) in tonnes.

AIR QUALITY

Isavia began to assess air quality at its airports in 2016. The engineering firm Efla prepared a report in co-operation with the University of Aveiro in Portugal as regards the air quality at Keflavík Airport. Pollution was calculated based on traffic through the airport in 2015, and estimates to 2025 were calculated. The conclusion of the report was that the concentration of all pollutants proved to be within the limits set in the requirements for air quality in Regulation No. 251/2002 for both 2015 and 2025. In addition, it should be noted that there are next to no emissions of ozone-depleting substances emitted in the operation of the company. Isavia has adopted the ADS-B technology in its flight navigation services, which provides

it with significantly increased accuracy in the location of the aircraft that fly through the Icelandic air traffic control area. This means that it is possible to lessen the distance between aircraft in the part of the air traffic control area where the traffic is heaviest each time due to advantageous weather conditions. This leads to considerably less use of fuel and emission of greenhouse gases. The new flight navigation technology, therefore, promotes increased safety, lessens environmental impact and saves the airlines money. The company has begun the adoption of telecommunications equipment for satellites which will make it possible to achieve even better success in other parts of the air traffic control areas.



SEWERAGE

Over the past few years, Isavia has improved wastewater drainage at the international airports, which are commonly connected to the municipal drainage systems. In 2016, work was carried out on refurbishing wastewater drainage from the west part of Keflavík Airport, which drains into the sea. A pumping and filter station was built at Djúpavík south of Stafnes in Sandgerði and a new and longer outlet laid out to sea. The work is expected to be completed this summer. Wastewater pipes from the east part of the area are connected to the filtering station at Fitjar in Reykjanesbær.

WASTE

Waste sorting varies considerably among company's operating locations. The most common is the separation of paper, deposit beverage containers, plastic and general waste. Some operating units, however, have gone further and also separate organic waste. Hazardous waste is sorted separately in all operating units, as required by law.

	Proportion	Kg	Kg per passenger
Sorted for recycling	14%	205,858	0.03
Unsorted to landfill	86%	1,222,277	0.16
Total	100%	1,428,135	0.19

It has proved most difficult to sort waste at Keflavík Airport, as there is a lack of facilities, and there have been difficulties according with customs rules. Waste sorting, however, will probably improve in the near future with the new facilities that have been built in connection with the enlargement of the airport terminal and which were brought into use just before the end of the year.

A part of Isavia's climate targets is to reduce the volume of unsorted waste in its operation, as there is considerable room for improvement.

NOISE



Noise from aircraft and other transport can have an effect on nearby areas and cause discomfort. Comments on noise levels are sometimes submitted by the residents of Reykjavík and Suðurnes. Isavia seeks to minimise such discomfort, designing, among other things, approach procedures that cause as little noise pollution as possible. Noise pollution sometimes temporarily increases due to work being carried out at the airport, or due to special types of aircraft that use the facilities of the airports.

Regular noise analyses are carried out at Reykjavík Airport as regards air traffic and always in connection with the renewal of the operating permit for the airport. The results of analyses in recent years have shown that noise from air traffic is under the established reference limits, and only two comments relating to noise were submitted last year. In addition, numerous measures have been taken to reduce noise pollution near the airport. It is, for instance, closed at night, and flight paths have often been changed to improve noise levels near the airport.

Keflavík Airport's noise footprint changed for a while when only one runway, the east-west runway, was in use when renewal construction was underway during peak periods in the summer of 2016. Certain residential areas were then subjected to noise pollution, mainly in Reykjanesbær. Work has been carried out to change flight paths to lessen the noise pollution. A proportion of the pollution can be traced to the generally increased traffic through the airport.

At present, new noise measurement equipment is being installed near Keflavík Airport, and the measurement values will be accessible to the public in real time on the Internet. One noise measurement device is already in use and has collected some data that is used to assess the level of noise. The measurements are the basis for being able to show users and residents the effects of changes.

“THE MEASUREMENTS ARE THE BASIS FOR BEING ABLE TO SHOW USERS AND RESIDENTS THE EFFECTS OF CHANGES.”

During the past year, there were 15 comments submitted as regards the noise from Keflavík Airport, both from residents and also from pilots who were dissatisfied with not being allowed to fly over residential areas. This is a decrease from the preceding year. With improvements, it is hoped that the comments will decrease even further. One complaint is being processed due to the conclusions of the Environment Agency that new runways need not undergo an environmental impact assessment.

DE-ICING MATERIAL



Clearway F1 in litres	54,300
Clearway SF3 in tonnes	27

Isavia uses Clearway F1 de-icing liquid together with Clearway SF3 solid runway de-icer for its runways and other aircraft used areas. The solid de-icer consists of sodium formate and carries the “Blue Angel” environmental label. The material is biodegradable, has minimal toxic effects on water resources and meets all required environmental and ecological requirements. The same applies to the de-icing liquid, which is based on potassium formate. Very little de-icing materials are used on the runways of domestic airports, only a little in Akureyri (2,000 l in 2016) Sand is more commonly used.

ECONOMY AND FINANCIALS

- 58 — MAJOR INDUSTRY IN STEADY GROWTH
- 60 — KEY FIGURES FROM OPERATIONS
- 62 — GRI OVERVIEW
- 74 — REPORT OF THE BOARD OF DIRECTORS
- 76 — INDEPENDENT AUDITOR'S REPORT
- 78 — CONSOLIDATED ANNUAL STATEMENTS OF ISAVIA

Isavia's financial position has strengthened considerably in recent years in line with its increased scope of operations. This is an important prerequisite to enable the company to cover the increased leveraging with the necessary developments ahead. The company has embarked on extensive and costly construction at Keflavík Airport over the past few years in order to respond to the significant growth in traffic.

During 2013–2016, investments were made amounting to approximately ISK 28.4bn in construction and renovations, and the company's forecasts assume tens of billions in investments in the coming years.

The proportion of Icelandic suppliers is 87%, and that of overseas suppliers is 13%, although there are no records detailing which of these reside outside the European Economic Area.



A MAJOR INDUSTRY IN STEADY GROWTH



Keflavik Airport
1954

Isavia, the Icelandic authorities, the airlines and other stakeholders have been successful in promoting Keflavik Airport as a destination, particularly outside peak hours. Passengers outside peak hours have grown proportionately faster than during peak hours. The decision of the Icelandic airlines to add wide-body jets to their fleet has had a significant impact on the operation of the airport.

It is important that care is taken as regards the enlargement plans for Keflavik Airport, which are necessary for the airport to be able to welcome the growing number of passengers in the future.

The development of the airport has great potential of becoming profitable, both as regards the operation of the airport itself and the Icelandic economy

“THE DEVELOPMENT OF THE AIRPORT HAS GREAT POTENTIAL OF BECOMING PROFITABLE, BOTH AS REGARDS THE OPERATION OF THE AIRPORT ITSELF AND THE ICELANDIC ECONOMY AS A WHOLE.”

This called for the enlargement of the airport as well as changes such as to the baggage handling system as well as the flow of passengers, and it is safe to say that these have been a success, although the changes were very rapid.

Keflavik Airport is the largest gateway into Iceland and is one of the most important individual aspects in the infrastructure of the tourism industry.

as a whole. It is, however, important to keep in mind the overheating effects of the development and ensure that the build-up goes hand in hand with the sensible forecast of the increase in passengers and opportunities relating thereto.

In addition, it is important that other infrastructure grow in tune with the enlargement of the airport, such as policing, healthcare, monitoring bodies and the road system.



Keflavik Airport's
Master Plan assumes
extensive development
to 2040.

Icelanders are frequent flyers in comparison to other European countries, according to a recent study carried out by the ACI (Airports Council International). The number of direct jobs at airports per capita are only exceeded by Luxembourg.

Direct jobs in the companies who have operations in Keflavik Airport have increased rapidly in conjunction with the increased number of travellers. The number of direct jobs was 5,600 in 2016, 1,300 of which were new jobs created during the year.

Based on the possible development of passenger numbers, it is estimated that 476 new jobs will be

created at the airport each year. These jobs will be spread between many companies that have operations at the airport, and around 40% will be directly linked to the Icelandic airlines (pilots, cabin crew, etc.). Other jobs are in the numerous other services provided at the airport. Some companies at the airport have had to seek employees overseas, and it is clear that the airport will increasingly have to draw workers from the Greater Reykjavik Area and South Iceland. It is, therefore, extremely important to improve transport means to the area. By the end of 2016, approximately 3% of the total workforce in Iceland was directly linked to the operations of Keflavik Airport.

KEY FIGURES FROM OPERATIONS

From the balance sheet	2016	2015	2014	2013	2012
Income	33,008	26,013	22,079	19,810	18,397
EBITDA	8,857	6,008	4,906	4,470	3,823
EBIT	6,322	3,999	3,328	2,818	2,396
Financial income/expenses	2,304	-181	-605	1,200	-1,465
Profit before taxes	8,626	3,818	2,724	4,018	932
Overall results	6,923	3,073	2,197	3,217	738

From the statement of financial position

Property, plant and equipment	42,922	31,425	25,715	23,179	21,784
Assets	59,229	45,187	40,849	34,511	33,390
Equity	27,057	20,134	17,061	14,864	11,647
Interest-bearing liabilities	24,206	18,565	18,963	15,886	18,803
Current ratio	1.49	1.30	1.91	1.24	1.26

From the statement of cash flows

Operating activities	6,151	6,326	4,628	4,032	3,535
Investment activities	-13,760	-5,747	-5,754	-2,966	-1,730
Financing activities	8,798	67	2,857	-1,324	-1,362
Cash and cash equivalents at end of period	5,831	4,994	4,491	2,730	3,026

Financial ratios

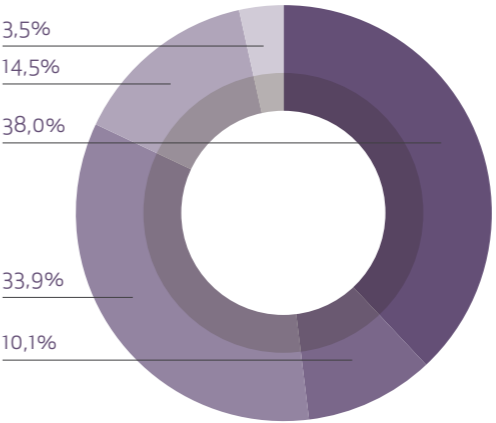
Contribution margin	27%	23%	22%	23%	21%
Profit margin	21%	12%	10%	16%	4%
Rate of return on assets	0.63	0.60	0.59	0.58	0.56
Return on equity	29%	17%	14%	24%	7%
Earnings per króna of share capital	1.24	0.55	0.39	0.58	0.13
Equity ratio	46%	45%	42%	43%	35%

Average number of positions	1,215	1,017	914	848	790
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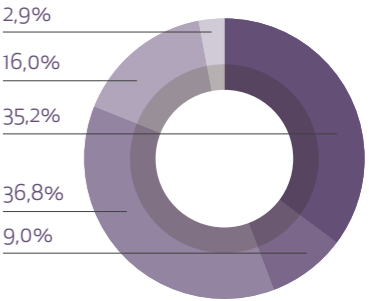
Group Revenue

- Income from airport services
- Income from property
- Goods sales
- Income from international services
- Other income

2016

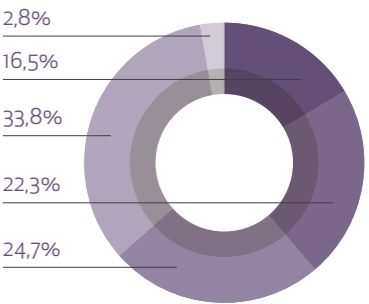
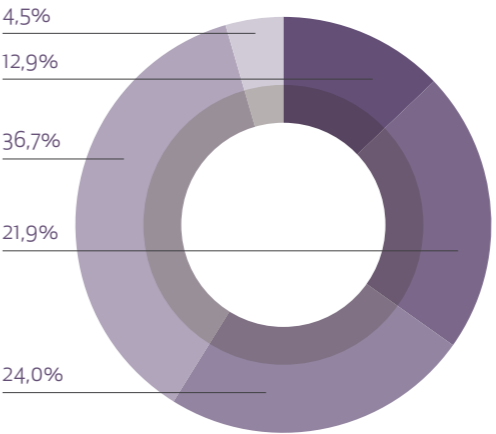


2015



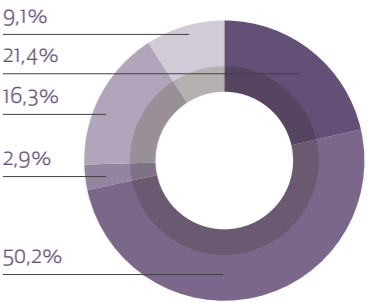
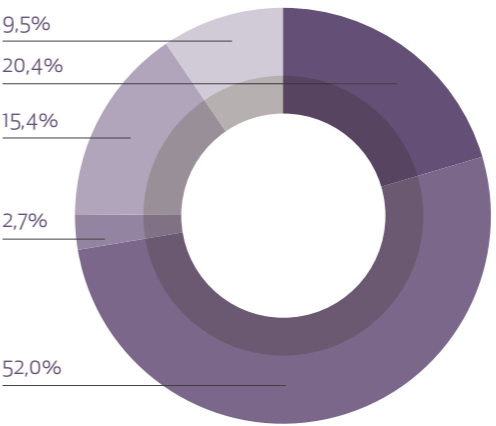
Income from airport services

- Service agreement with IRR
- Landing charges
- Airport security fees
- Passenger fees
- Other fees



Operating costs

- Costs of goods sold
- Payroll expenses
- Office and administrative costs
- Other operating costs
- Depreciation



GRI OVERVIEW

Isavia is issuing its first Annual Accounts and Social Report in accordance with the criteria of the Global Reporting Initiative (GRI). The report follows the criteria of GRI G4 Comprehensive and Airport Operators Sector Disclosures, which is specifically intended to address the challenges and opportunities that airports face when it comes to sustainability.

The information in the report is based on 2016, and applies to the parent company. The report was prepared by experts in their fields at Isavia. The table below shows the status of each aspect and where information on them can be found.

Content	Placement	Status	Page no.
STRATEGY AND ANALYSIS			
G4-1	Statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	Address by the Managing Director	●8–9
G4-2	Provide a description of key impacts, risks, and opportunities.	Address by the Managing Director	●8–9
ORGANIZATIONAL PROFILE			
G4-3	Name of the organization.	Isavia ohf.	●
G4-4	Primary brands, products, and services.	Isavia's Operations, Executive Board, Increased Scope	●6, 18–21, 36–37
G4-5	Location of the organization's headquarters.	Reykjavik Airport, 101 Reykjavik	●
G4-6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	Isavia only operates in Iceland. The company owns four subsidiaries, The Duty Free Store, Tern Systems, Domavia and Suluk.	●
G4-7	Nature of ownership and legal form	Isavia is public limited company	●
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	Isavia's Operations, Stakeholders, Increased Scope, https://www.kefairport.is/English/About-us/Facts-and-figures/	●6, 26–35, 36–39
G4-9	Scale of reporting organization: Total number of employees, total number of operations, net sales or net revenue, total capitalization broken down in terms of debt and equity and quantity of products or services provided. Additionally for airports: size of airport, number and length of runways, stating whether they are primary or crosswind runways, minimum connection time between flights at the airport, number of operations, number of airlines served and number of destinations served.	Isavia's Operations, Stakeholders (customers), Human Resources, Major Industry in Steady Growth, Key Figures from Operations, Annual Report	●6, 26–27, 40–43, 58–59, 60–61, 74–99
G4-10	Total number of employees by employment contract and gender (a-f total 6 items).	Human Resources	●40–43
G4-11	Percentage of total employees covered by collective bargaining agreements.	Human Resources	●40–43
G4-12	Description of the organization's supply chain:	Stakeholders (suppliers)	●35
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain.		●8–9, 16–21
COMMITMENTS TO EXTERNAL INITIATIVES			
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	Stakeholders (authorities), Isavia and the Environment	34–35, 46–55

- Compliance
- Partially compliant
- None compliance
- Not Applicable

Content	Placement	Status	Page no.
G4-15	List of externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	Address of the Chairman of the Board of Directors, Corporate Social Responsibility Strategy, Stakeholders (society), Isavia and the Environment	●10–13, 24–25, 32–34
G4-16	Memberships of associations (such as industry associations) and national or international advocacy organizations.	Address of the Chairman of the Board of Directors, Corporate Social Responsibility Strategy, Stakeholders (society), Isavia and the Environment	●10–13, 24–25, 32–34
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
G4-17	Operational Structure of the organization.	Annual Report	●74–99
G4-18	Details on report content and aspect boundaries.	This is the first CSR report published by Isavia. It is based on the Global Reporting Initiative (GRI). With additions from the Airport Operators Sector Disclosures.	●
G4-19	All material Aspects identified in the process for defining report content.	Isavia's Operations Isavia, Stakeholders, Isavia and the Environment	●6–7, 26–35, 46–55
G4-20	Aspect Boundary within the organization: Methodology for measures, including assumptions. Additionally for airports: Passengers and cargo from customers	Increased Scope, Human Resources, Isavia and the Environment	●36–37, 40–43, 46–55
G4-21	Aspect Boundary outside the organization.: Methodology for measures, including assumptions. Additionally for airports: Passengers and cargo from customers	Increased Scope, Human Resources, Isavia and the Environment	●36–37, 40–43, 46–55
G4-22	Explanation of the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Not applicable to first report	●
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	Not applicable to first report	●
STAKEHOLDER ENGAGEMENT			
G4-24	List of stakeholder groups engaged by the organization.	Corporate Social Responsibility Strategy, Stakeholders, Increased Scope	●24–25, 26–35, 36–37
G4-25	Basis for identification and selection of stakeholders with whom to engage.	Corporate Social Responsibility Strategy, Stakeholders, Increased Scope	●24–25, 26–35, 36–37
G4-26	Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	Address by the Managing Director, Address of the Chairman of the Board of Directors, Governance, Stakeholders, Increased Scope, Human Resources	8–9, 10–13, 16, 26–35, 36–37, 40–43
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	Address by the Managing Director, Address of the Chairman of the Board of Directors, Corporate Social Responsibility Strategy, Stakeholders, The Environment	●8–9, 10–13, 24–25, 26–35, 46–55
REPORT PROFILE			
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	Report for the year 2016	●
G4-29	Date of most recent previous report (if any).	Not applicable for first report	●
G4-30	Reporting cycle (such as annual, biennial).	Yearly	●
G4-31	Contact point for questions regarding the report or its contents.	Enquiries sent to: https://www.isavia.is/english/about-isavia/contact	●
G4-32	GRI Content Index. Process for determining the content of the report.	The GRI criteria was used with additions for airports.	●

- Compliance
- ◐ Partially compliant
- None compliance
- Not Applicable

Content	Placement	Status	Page no.
GRI CONTENT INDEX			
G4-33	Policy and current practices with regard to seeking external assurance for the report	Independent Auditor's Report, comply with laws and regulations applicable to the company, Risk Management, Governance, The Environment	●16–17, 46–55, 76–77
GOVERNANCE			
GOVERNANCE STRUCTURE AND COMPOSITION			
G4-34	Governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts	Governance	●16–17
G4-35	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	Governance (Executive Board)	◐16–19
G4-36	Report whether the organization has appointed an executive-level positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body	Governance (Executive Board)	●16–19
G4-37	Process for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body	The project was managed by the PMO manager at Development & Administration on behalf of the Managing Director	●
G4-38	Composition of the highest governance body and its committees.	Corporate Governance Statement: https://www.isavia.is/um-isavia/stjorn/	●
G4-39	Report whether the Chair of the highest governance body is also an executive officer	Governance Procedures: https://www.isavia.is/um-isavia/stjorn/	●
G4-40	Report the nomination and selection processes for the highest governance body and its comittess, and the criteria used for nominating and selecting highest governance body members, including: Whether and how diversity is considered, whether and how independence is considered, whether and how expertise and experience relating to economic, environmental and social topics are considered and whether and how stakeholders (including shareholders) are involved	The Authorities' General Ownership Policy	◐
G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed	Governance Procedures and Code of Conduct: https://www.isavia.is/um-isavia/stjorn/	●
HIGHEST GOVERNANCE BODY'S ROLE IN SETTING PURPOSE, VALUES AND STRATEGY			
G4-42	Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impact	Governance Procedures and Corporate Governance Statement: https://www.isavia.is/um-isavia/stjorn/	●
HIGHEST GOVERNANCE BODY'S AND SENIOR EXECUTIVES' ROLES IN THE DEVELOPMENT, APPROVAL, AND UPDATING OF THE ORGANIZATION'S PURPOSE, VALUE OR MISSION STATEMENTS, STRATEGIES, POLICIES, AND GOALS RELATED TO ECONOMIC, ENVIRONMENTAL AND SOCIAL IMPACT			
G4-43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics		○
G4-44	Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics.		○

Content	Placement	Status	Page no.
HIGHEST GOVERNANCE BODY'S ROLE IN RISK MANAGEMENT			
G4-45	Highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. Include the highest governance body's role in the implementation of due diligence processes.	Governance	◐16–19
G4-46	Highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics.		○
G4-47	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.		○
HIGHEST GOVERNANCE BODY'S ROLE IN SUSTAINABILITY REPORTING			
G4-48	Highest committee or position that formally reviews and approves the organizations sustainability report and ensures that all material Aspects are covered	Managing Director	●
HIGHEST GOVERNANCE BODY'S ROLE IN EVALUATIONG ECONOMIC, ENVIRONMENTAL AND SOCIAL PERFORMANCE			
G4-49	Process for communicating critical concerns to the highest governance body	Through the Managing Director and Executive Board	●
G4-50	Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them	Board Minutes	●
REMUNERATION AND INCENTIVES			
G4-51	Remuneration policies for the highest governance body and senior executives	Remuneration policy 2016 confirmed at the Annual General Meeting	●
G4-52	Process for determining remuneration	Human Resources	◐41
G4-53	How stakeholders' views are sought and taken into account regarding remuneration, including the results of votes on remuneration policies and proposals, if applicable.		○
G4-54	Ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country.	No bonuses are paid in the company	●
G4-55	Ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country.	No bonuses are paid in the company	●
ETHICS AND INTEGRITY			
STANDARD DISCLOSURES PROVIDE AN OVERVIEW OF: VALUES, PRINCIPLES, STANDARDS AND NORMS			
G4-56	The organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	Human Resources, on the website: https://www.isavia.is/um-isavia	●40–43
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines.		○
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	Rulings and verdicts, Laws and regulations: http://www.isavia.is/um-isavia/log-og-reglugerdir	●35

- Compliance
- ◐ Partially compliant
- None compliance
- Not Applicable

Content	Placement	Status	Page no.
ECONOMIC			
ECONOMIC PERFORMANCE			
G4-EC1	Direct economic value generated and distributed: Revenues, operating costs, employee wages and benefits, payments to providers of capital, payments to government (by country), community investments	Annual Report	●74–99
G4-EC2	Risks and opportunities posed by climate change that have the potential to generate substantive changes in operations, revenue or expenditure		○
G4-EC3	Coverage of the organization's defined benefit plan obligations	Annual Report	●74–99
G4-EC4	Total monetary value of financial assistance received by the organization from governments	None	●
MARKET PRESENCE			
G4-EC5	Standard entry level wage by gender compared to local minimum wage at significant locations of operation		○
G4-EC6	Prorportion of senior management hired from the local community at significant locations of operation. Additionally for airports: Is of particular relevance to the airport sector.	Everybody	●
A01	Airport disclosure: Total number of passengers annuarly, broken down by passengers on international and domestic flights, and broken down by origin-and-destination and transfer passengers, including transit passengers.	Economy of Isavia, Facts and figures: https://www.kefairport.is/English/About-us/Facts-and-figures/	●72
A02	Airport disclosure: Total annual number of aircraft movements by day and by night, broken down by commercial passenger, commercial cargo, general aviation, and state aviation flights.	Increased Scope	●36–37
A03	Airport disclosure: Total amount of cargo tonnage	Increased Scope	●36–37
INDIRECT ECONOMIC IMPACTS			
G4-EC7	Development and impact of infrastructure investments and services supported. Additonally for airports: Particular relevance to the airport sector because of high impact on local economies.	A Major Industry in Steady Growth, Annual Report	●58–59, 74–99
G4-EC8	Significant indirect economic impacts, including the extent of impacts	A Major Industry in Steady Growth	◐58–59
PROCUREMENT PRACTICES			
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	Economy of Isavia	●53
ENVIRONMENTAL			
MATERIALS			
G4-EN1	Materials used by weight or volume	Isavia and the Environment	●48
G4-EN2	Percentage of materials used that are recycled input materials	Isavia and the Environment	●48
ENERGY			
G4-EN3	Energy consumption within the organization, including fuel types used	Isavia and the Environment	●48
G4-EN4	Energy consumption outside the organization, including fuel types used	Isavia and the Environment	○
G4-EN5	Energy intensity	Not applicable. More applicable to manufacturing companies.	●

Content	Placement	Status	Page no.
G4-EN6	Reduction of energy consumption. Additionally for airports: Important for airports to share sectoral best practice.	Isavia and the Environment	◐48
G4-EN7	Reductions in energy requirements of products and services	Isavia and the Environment	○
WATER			
G4-EN8	Total water withdrawal by source	Isavia and the Environment	●48
G4-EN9	Water sources significantly affected by withdrawal of water	No water short tage in the country	●
G4-EN10	Percentage and total volume of water recycled and reused	Isavia and the Environment	○
A04	Airport disclosure: Quality of storm water by applicable regulatory standards.	Isavia and the Environment	◐46
BIODIVERSITY			
G4-EN11	Operational sited owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Isavia and the Environment	◐49
G4-EN12	Description of significant impacts of activites, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Isavia and the Environment	◐49
G4-EN13	Habitats protected or restored	Isavia and the Environment	●
G4-EN14	Total number of IUCN RED list species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	Isavia and the Environment	●49
EMISSIONS			
G4-EN15	Direct greenhouse gas (GHG) emissions (scope 1)	Isavia and the Environment	●52
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (scope 2)	Isavia and the Environment	●52
G4-EN17	Other indirect greenhouse gas (GHG) emissions (scope 3)	Isavia and the Environment	◐52
G4-EN18	Greenhouse gas (GHG) emissions intensity	Isavia and the Environment	●52
G4-EN19	Reduction of greenhouse gas (GHG) emissions. Additionally for airports: Reference to ACI-ACA Airport Carbon Accreditation Program.	Isavia and the Environment	●52
A05	Airport disclosure: Ambient air quality levels according to pollutant concentrations in microgram per cubic meter or parts per million by regulatory regime.	Isavia and the Environment	◐52
G4-EN20	Emissions of ozone-depleting supstances (ODS)	Isavia and the Environment	●52
G4-EN21	Nox, Sox and other significant air emissions	Isavia and the Environment	◐52
EFFLUENTS AND WASTE			
G4-EN22	Total water discharge by quality and destination		○
G4-EN23	Total weight of waste by type and disposal method. Additionally for airports: Report on the weight of waste from international flights.	Isavia and the Environment	●53
A06	Airport disclosure: Aircraft and pavement de-icing/ anti-icing fluid used and treated by m3 and/or metric tonnes	Isavia and the Environment	◐53
G4-EN24	Total number and volume of significant spills		○
G4-EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally		●

- Compliance
- Partially compliant
- None compliance
- Not Applicable

Content	Placement	Status	Page no.
G4-EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff	●	
G4-EN27	Extent of impact mitigation of environmental impacts of products and services	●	53
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category	○	
NOISE			
A07	Additionally for airports: Number and percentage change of people residing in areas affected by noise	●	54
COMPLIANCE			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	●	54
TRANSPORT			
G4-EN30	Significant environmental impacts of transporting products and other goods and material for the organization's operations, and transporting members of the workforce	○	
OVERALL			
G4-EN31	Total environmental protection expenditures and investments by type	○	
SUPPLIER ENVIRONMENTAL ASSESSMENT			
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	○	
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	○	
ENVIRONMENTAL GRIEVANCE MECHANISMS			
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	●	54
SOCIAL			
LABOR PRACTICES AND DECENT WORK			
EMPLOYMENT			
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	●	40
G4-LA2	Benefits provided to full-time employees, by significant locations of operation	●	40
G4-LA3	Return to work and retention rates after parental leave, by gender	●	42
LABOUR/MANAGEMENT RELATIONS			
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	●	41
OCCUPATIONAL HEALTH AND SAFETY			
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	●	42–43
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism and total number of work-related fatalities, by region and by gender	●	42–43

Content	Placement	Status	Page no.
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	○	
G4-LA8	Health and safety topics covered in formal agreements with trade unions	○	
TRAINING AND EDUCATION			
G4-LA9	Average hours of training per year per employee by gender, and by employee category	●	40–41
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	●	40–41
G4-LA11	Percentage of employees receiving performance and career development reviews, by gender and by employee category	●	40–41
DIVERSITY AND EQUAL OPPORTUNITY			
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	●	40–43
EQUAL REMUNERATION FOR WOMEN AND MEN			
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	●	40–43
SUPPLIER ASSESSMENT FOR LABOR PRACTICE			
G4-LA14	Percentage of new suppliers that were screened using labor practices criteria	○	
G4-LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	○	
LABOR PRACTICES GRIEVANCE MECHANISMS			
G4-LA16	Number of Grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	○	
HUMAN RIGHTS			
INVESTMENT			
G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	○	
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	No special training has been performed on human rights issues beyond the promotion and training related to gender equality and bullying	○
NON-DISCRIMINATION			
G4-HR3	Total number of incidents of discrimination and corrective actions taken	No incidents	●
FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING			
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	Isavia operates only in Iceland and it is considered to be an insignificant risk of such violations there	●
CHILD LABOR			
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor	Isavia operates only in Iceland and it is considered to be an insignificant risk of such violations there	●

- Compliance
- Partially compliant
- None compliance
- Not Applicable

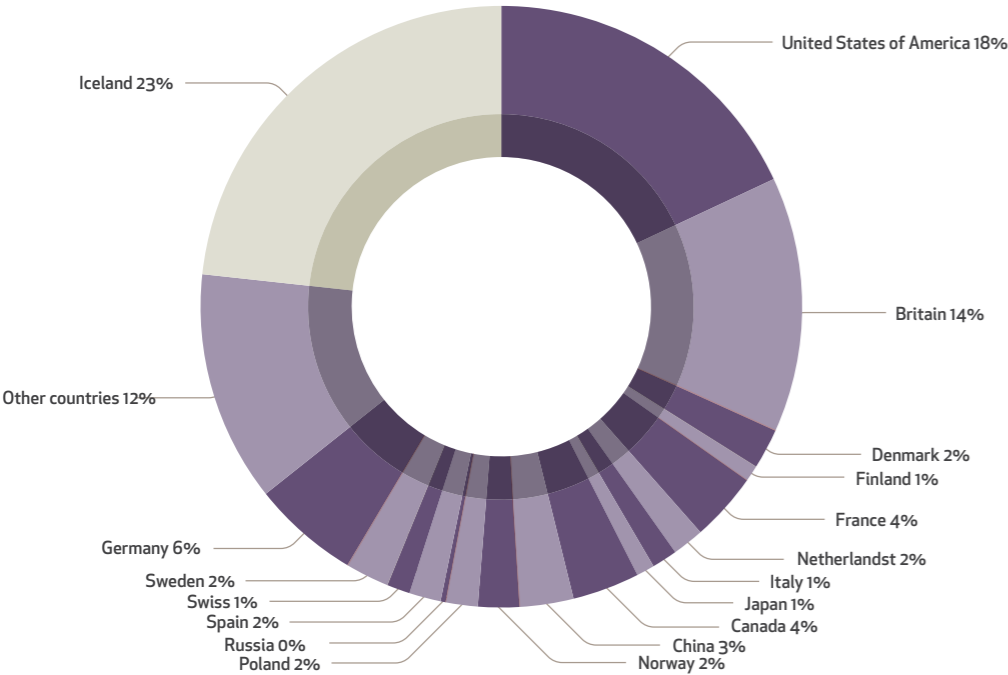
Content		Placement	Status	Page no.
FORCED OR COMPULSORY LABOR				
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimonation of all forms of forced or compulsory labor	Isavia operates only in Iceland and it is considered to be an insignificant risk of such violations there	●	
SECURITY PRACTICE				
G4-HR7	Percentage of security personnel trained in the organization's human rights policies of procedures that are relevant to operations		○	
INDIGENOUS RIGHTS				
G4-HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken	Not appicable to Iceland	●	
ASSESSMENT				
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	Not appicable to Iceland	●	
SUPPLIER HUMAN RIGHTS ASSESSMENT				
G4-HR10	Percentage of new suppliers that where screened using human rights criteria		○	
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken		○	
HUMAN RIGHTS GRIEVANCE MECHANISMS				
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	No complaints	●	
SOCIETY				
THE SOCIETY				
LOCAL COMMUNITIES				
G4-S01	Percentage of operations with implimented local community engagement, impact assessments, and development programs	CSR Strategy, A Major Industry in Steady Growth	●	24–25, 58–59
G4-S02	Operations with significant actual and potential negative impacts on local communitis	CSR Strategy, A Major Industry in Steady Growth	●	24–25, 58–59
A08	Airport disclosure: Number of persons physically or economically displaced, either voluntarily or involunatirly, by the aiport operator or on its behalf by a governmental or other entity, and compensation provided.	No incidents reported	●	
ANTI-CORRUPTION				
G4-S03	Total number and percentage of operations assessed for risks related to corruption		○	
G4-S04	Communication and training on anti-corruption policies and procedures	Governance Procedures and Code of Conduct: https://www.isavia.is/um-isavia/stjorn/	●	
G4-S05	Confirmed incidents of corruption and actions taken	No complaint been accepted	●	
PUPLIC POLICY				
G4-S06	Total value of political contributions by country and recipient/beneficiary	No funding is granted to political parties	●	
ANTI-COMPETITIVE BEHAVIOR				
G4-S07	Total number of legal actions for anti-competitive behavior, anti trust, and monopoly practices and their outcomes	No lawsuits	●	

Content		Placement	Status	Page no.
COMPLIANCE				
G4-S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with the laws and regulations	No fines for violations of laws and regulations	●	
SUPPLIER ASSESSMENT FOR IMPACTS ON SOCIETY				
G4-S09	Percentage of new suppliers that where screened using criteria for impacts on society		○	
G4-S010	Significant actual and potential negative impacts on society and supply chain and actions taken		○	
GRIEVANCE MECHANISMS FOR IMPACTS ON SOCIETY				
G4-S011	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	CSR Strategy, Isavia and the Environment	●	35, 54
SOCIAL RESPONSIBILITY				
PRODUCT RESPONSIBILITY				
CUSTOMER HEALTH AND SAFETY				
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement		○	
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes		○	
A09	Airport disclosure: Total annual number of wildlife strikes per 10,000 aircraft movements.	Isavia and the Environment	●	49
PRODUCT AND SERVICE LABELING				
G4-PR3	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements		○	
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	No complaint been accepted	●	
G4-PR5	Results of surveys measuring customer satisfaction	Stakeholders (customers)	●	27
MARKTEING COMMUNICATIONS				
G4-PR6	Sale of banned or disputed products	Isavia does not sell prohibited or controversial products itself. However, the company has a contractual relationship with the operators of shops and restaurants at Keflavik Airport which sells alcohol and tobacco. One of them is The Duty Free Store Ltd., Isavia's subsidiary	●	
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by types of outcomes.	No complaints to Isavia	●	
G4-PR8	Total number substantiated complaints regarding breaches of customer privacy and losses of customer data	No complaints to Isavia	●	
COMPLIANCE				
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	No fines have been imposed on the company	●	

DESTINATIONS 2016

Aberdeen	Cologne Bonn	Lisbon	Paris CDG
Akureyri	Constable Point	Ljubljana	Paris Orly
Alicante	Copenhagen	London Gatwick	Portland
Almeria	Denver	London Heathrow	Prague
Amsterdam	Dublin	London Luton	Riga Intl
Anchorage	Dusseldorf	London Stansted	Rome Fiumicino
Antalya	Edinburgh	Los Angeles	Salzburg
Baltimore Washington	Edmonton	Lyon	San Francisco
Barcelona	Faro	Madrid	Seattle
Basel Mulhouse	Frankfurt	Malaga	Stockholm Arlanda
Belfast	Friedrichshafen	Manchester	Stockholm Vasteras
Bergen	Gdansk	Milan Malpensa	Stuttgart
Berlin Schoenefeld	Geneva	Minneapolis St Paul	Tenerife
Berlin Tegel	Glasgow	Montreal	Toronto
Billund	Göthenburg	Munich	Vagar
Birmingham	Halifax	Narsarsuaq	Vancouver
Boston	Hamburg	New York JFK	Verona
Bremen Neuenland Intl	Helsinki	New York Newark	Vienna
Bristol	Ilulissat	Nice	Vilnius
Brussels	Jerez De La Frontera	Nuuk	Warsaw
Budapest	Kangerlussuaq	Oslo	Washington Dulles
Chania	Keflavík	Palma	Zurich
Chicago	Las Palmas		

PASSENGER NATIONALITY THROUGH
KEFLAVÍK AIRPORT



REPORT OF THE BOARD OF DIRECTORS

Isavia ohf. is a publicly owned company operating on the basis of Act No. 2/1995 on Public Limited Companies. The state Treasury is the only share-holder in the company, and the company's domicile and legal venue is at Reykjavik Airport. Isavia ohf. is responsible for the operation and development of all Icelandic airports, as well as controlling air traffic in the Icelandic air traffic control area. Isavia ohf. is a service company in airport operations and air navigation and forms the foundation for Iceland's civil aviation.

The 2016 Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

According to the overview of the overall results of the consolidated accounts of Isavia ohf., the operating income in 2016 amounted to approximately ISK 33,008.3 million and had, therefore, increased by ISK 6,995.4 million between years. The year's profits amounted to ISK 6,922.8 million, an ISK 3,849.7 million increase between years. Of this increase between years, ISK 2,512 million can be traced to exchange rate differences which are a result of the strengthening of the Icelandic króna. This part of profits is by its nature not part of the core operations of the company. According to the balance sheet, the company's total assets increased by ISK 14,041.8 million in 2016, and were ISK 59,229 million at the end of the year. The company's recorded equity amounted to ISK 27,056.9 million at the end of 2016, increasing by ISK 6,922.8 million from the close of 2015. The equity ratio at year-end 2016 was 45.68%, compared to 44.56% at year-end 2015. Full-time positions were on average 1215 in 2016, increasing by 98 between years.

The Board of Directors recommends that the year's profits be transferred to the next year and refers in other respects to the financial statements as regards changes in equity.

The Board has established detailed rules of procedure defining its scope of authority and the divisions of tasks between it and the Managing Director. In addition, the company has established a comprehensive risk policy for the company, a code of ethics and focus points as regards social responsibility. The rules of procedure provide for the company's Board following the Guidelines on Corporate Governance which are published by the Iceland Chamber of Commerce, Nasdaq OMX Iceland hf. and the Confederation of Icelandic Employers. The company's corporate governance statement was renewed in February 2017.

Isavia ohf. established policies on social responsibility for itself and became a member of the UN Global Compact (UNGC). At the same time, efforts have been spent on harmonising the company's policy formulation and corporate governance to the 10 main principles of UNGC. The company's annual accounts now reflects, for the first time, these focus points in environmental, social and employee issues. In addition, Isavia ohf. will annually submit a report to the United Nations describing the company's goals and achievements in the ten categories specified. The report will be submitted for the first time in 2017.


The Board and Managing Director of Isavia ohf. confirm to the best of their knowledge that these consolidated statements provide a fair view of the results of the company, its assets, debts and changes to cash and cash equivalents during the year. Moreover, it is the opinion of the Board

and Managing Director of Isavia ohf. that the company's accounting standards are appropriate and that these Consolidated Financial Statements contain a good overview of the development and achievements in the operation of the company, risk management and main uncertainties in the company's environment.

The Board and the Managing Director of Isavia ohf. have today examined and approved the consolidated accounts of the company for 2016 and confirm these accounts with their signatures.

Reykjavík,
16 March 2017

Board of Directors


Ingimundur Sigurpálsson,
Chairman of the Board


Sigrún Traustadóttir


Matthías Páll Immanuel


Ragnar Óskarsson


Theódóra Þorsteinsdóttir

Managing Director


Björn Óli Hauksson

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF ISAVIA OHF.

Opinion

We have audited the accompanying 2016 Consolidated Financial Statements of Isavia ohf. The Consolidated Financial Statements contain the consolidated income statement, the consolidated balance sheet, the consolidated statement of cash flows and information on significant accounting policies and other explanatory notes.

In our opinion, the consolidated financial statements give a true and fair view of the results of the company in 2016, the financial position of the company as of 31 December 2016 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 and additional requirements provided for in the Act on Annual Accounts.

Basis for opinion

We conducted our audit in accordance with international standards on auditing. Our responsibility according to those standards is further described below in the section on auditor responsibility. We are independent of Isavia ohf. in accordance with established codes of ethics for auditors in Iceland, and we have fulfilled their conditions. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other information

The Board of Directors and Managing Director are responsible for other information. Other information consists of the report of the Board and Corporate Governance Statement which we received before the date of endorsement and the annual financial statements of Isavia ohf., which we expect to receive after the date of endorsement and which do not contain the annual financial statements and our signatures thereon.

Our opinion of the consolidated financial statements does not cover other information, and we neither reach a conclusion on nor provide confirmation for their content with the exception of the confirmation relating to the report of the Board of Directors stated below.

In connection with our audit, we are responsible for reading the aforesaid other information and examining whether such

information is significantly inconsistent with the consolidated financial statements or our knowledge which we have obtained during the audit or which appears in other respects to contain significant errors. If we reach the conclusion, based on the work that we have performed, that there are significant inconsistencies in the other information, we are under obligation to disclose this fact. There is nothing that we need disclose relating thereto.

If we reach the conclusion that there are significant inconsistencies in the annual financial statements of Isavia ohf. when we read it after the date of signing, we are under obligation to disclose this fact.

In accordance with the provisions of the second paragraph of Article 104 of Act No. 3/2006 on Annual Accounts, we confirm that according to the best of our knowledge, the report of the Board of Directors attached to this Annual Financial Statement provides the information that should be contained therein pursuant to the Act on Annual Accounts and is not contained in the notes.

Responsibility of the Board and Managing Director for the consolidated annual financial statement.
The Board and Managing Director are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as approved by the European Union and additional requirements contained in the Act on Annual Accounts. The Board and Managing Director are also responsible for the internal controls relevant to the preparation and fair presentation of consolidated financial statements so that it is free from material misstatement, whether due to fraud or error.

In the preparation of the consolidated financial statements, the Board of Directors and the Managing Director are responsible for assessing the operability of Isavia ohf. If appropriate, the Board of Directors and Managing Director shall provide the appropriate explanation of operability and the reason why they decided to apply the criteria for operability in the preparation and presentation of the consolidated financial statements, unless the Board of Directors and the Managing Director have

decided to dissolve the company or cease operations or have no other realistic options.

Auditors responsibility for the audit of the consolidated financial statements.
Our goal is to obtain sufficient certainty that the consolidated financial statements are free of material misstatements, whether through fraud or by mistake, and to issue a statement that contains our opinion.

Sufficient certainty, however, is not a guarantee that the audit performed in accordance with international auditing standards will discover all significant errors should they be there. Errors can occur by mistake or fraud and are considered significant if they can have an impact on the financial decision making of the users of the consolidated annual financial statements, whether on their own or in aggregate.

Our audit, in accordance with international auditing standards, is based on professional judgement, and we make use of critical thinking in our audit. In addition, we carry out the following:

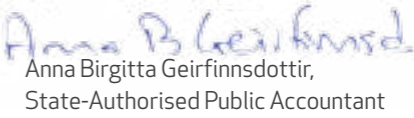
- Analyse and assess the risk of significant errors in the consolidated annual financial statements, whether due to fraud or mistakes, design and execute auditing actions to respond to such risks and collect auditing data that are sufficient and appropriate to base our opinion on. The risk of not discovering a significant error that is due to fraud is greater than one due to a mistake, as fraud can involve collusion, forgery, misleading presentation of annual financial statements, something that is deliberately left out or the deliberate by-passing of internal monitoring actions.
- Obtain an understanding of internal controls, which has an impact on the audit, for the purpose of designing appropriate auditing actions, but not for the purpose of expressing an opinion of the effectiveness of the internal controls of the company.

- Assess whether the accounting methods used and the related notes are appropriate and whether the accounting assessment of the management is realistic.
- Form an opinion on the use by management of the criteria for operability and assess on the basis of the audit whether there is significant doubt as regards operability or whether there are circumstances that could give rise to significant doubt of operability. If we consider that there is significant doubt of operability, we are under obligation to draw attention to the appropriate notes in the annual financial statements in our report. In the event that such notes are inadequate, we must depart from an unqualified report. Our conclusions are based on the auditing data that we have obtained up to the date of our signature. Nevertheless, events or circumstances may arise in the future that can cause uncertainties about the operability of the company.
- Assess overall whether the consolidated annual financial statements provide a clear image of the underlying business and events and assess the presentation, structure and contents, including the notes to the consolidated annual financial statements, in light of a clear image.

We are under obligation to inform the Board of Directors, among other things, about the scope and timing of the audit and significant issues that arose during our audit, including significant shortcomings to internal controls that came to light during the audit, if appropriate.

Reykjavik,
16 March 2017


Guðmundur Kjartansson,
State-Authorised Public Accountant


Anna Birgitta Geirfinnsdóttir,
State-Authorised Public Accountant

STATEMENT OF COMPREHENSIVE
INCOME IN 2016

	Notes	Consolidation 2016	2015
Operating revenues	4	33,008,318	26,012,925
Cost of goods sold		(5,449,860)	(4,715,871)
Salaries and related expenses	5	(13,863,834)	(11,041,154)
Administrative expenses		(731,905)	(644,282)
Other operating expenses		(4,106,199)	(3,603,126)
Depreciation and amortization	9, 10	(2,534,516)	(2,009,451)
Operating profit		6,322,003	3,999,041
Financial income	7	349,742	219,154
Financial expenses	7	(837,089)	(679,206)
Net exchange rate differences	7	2,791,234	279,282
Profit before taxes		8,625,890	3,818,271
Income tax	8	(1,703,060)	(745,178)
Total comprehensive income for the year		6,922,830	3,073,094

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2016

Assets	Notes	Consolidation 31.12.2016	31.12.2015
Non-current assets			
Property, plant and equipment	9	42,921,660	31,425,312
Intangible assets	10	5,320,693	5,543,746
Bonds and other long term assets	12	223,944	255,174
		<u>48,466,297</u>	<u>37,224,232</u>
Current assets			
Inventories	13	519,486	453,843
Accounts receivables	14	2,625,764	1,633,010
Current maturities of long term assets	12	36,551	48,900
Other receivables	14	1,750,430	833,516
Bank balances and cash	14	5,830,506	4,993,722
		<u>10,762,737</u>	<u>7,962,990</u>
Total assets		<u><u>59,229,033</u></u>	<u><u>45,187,222</u></u>
Equity and liabilities			
Equity	15		
Share capital		5,589,063	5,589,063
Statutory reserves		2,483,798	2,483,798
Revaluation reserves		46,331	47,655
Retained earnings		18,937,671	12,013,517
Total equity		<u>27,056,864</u>	<u>20,134,034</u>
Non-current liabilities			
Loans from credit institutions	16	22,970,292	17,547,474
Deferred tax liabilities	17	1,987,019	1,359,680
		<u>24,957,311</u>	<u>18,907,154</u>
Current liabilities			
Accounts payable	18	2,567,127	2,790,519
Current maturities of non-current liabilities	18	1,236,190	1,017,218
Current tax liabilities	8	1,075,721	480,729
Other current liabilities	18	2,335,821	1,857,569
		<u>7,214,859</u>	<u>6,146,034</u>
Liabilities		<u>32,172,170</u>	<u>25,053,188</u>
Total equity and liabilities		<u><u>59,229,033</u></u>	<u><u>45,187,222</u></u>

EQUITY STATEMENT

	Share Capital	Statutory reserves	Revaluation reserves	Retained earnings	Total Equity
Opening balance at 1 January 2015	5,589,063	2,483,798	48,979	8,939,100	17,060,940
Transfer to retained earnings	0	0	(1,324)	1,324	0
Comprehensive income	0	0	0	3,073,094	3,073,094
Balance at 31 December 2015	5,589,063	2,483,798	47,655	12,013,517	20,134,034
Opening balance at 1 January 2016	5,589,063	2,483,798	47,655	12,013,517	20,134,034
Transfer to retained earnings	0	0	(1,324)	1,324	0
Comprehensive income	0	0	0	6,922,830	6,922,830
Balance at 31 December 2016	5,589,063	2,483,798	46,331	18,937,671	27,056,863

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

STATEMENT OF CASH FLOWS 2016

	Notes	Consolidation	
		2016	2015
Cash flows from operating activities			
Operating profit		6,322,003	3,999,041
Depreciation and amortization	9, 10	2,534,516	2,009,451
Long term assets expensed	12	17,693	4,672
(Gain) Loss on disposal of assets		(2,738)	(5,249)
Operating cash flow before transfer to working capital		8,871,474	6,007,916
Changes in inventories	13	(67,176)	(30,826)
Changes in operating assets		(1,935,246)	(143,110)
Changes in operating liabilities		248,942	1,265,270
Cash generated from operations		7,117,994	7,099,250
Interest earned		318,997	224,380
Finance costs		(805,308)	(666,294)
Income taxes paid		(480,729)	(331,767)
Net cash generated from operating activities		6,150,954	6,325,569
Investing activities			
Acquisition of property, plant and equipment	9	(13,712,023)	(7,438,974)
Acquisition of intangible assets	10	(93,051)	(131,848)
Installments on bonds	12	44,607	48,654
Time deposit		0	1,774,920
		(13,760,466)	(5,747,248)
Financing activities			
Repayments of borrowings	16	(1,135,128)	(1,065,602)
New bank loans raised	16	9,933,200	1,133,680
Repayments of obligations under finance leases		0	(718)
		8,798,072	67,360
Net change in cash and cash equivalents		1,188,560	645,681
Cash and cash equivalents at the beginning of the year		4,993,722	4,490,788
Effect of foreign exchange rates		(351,776)	(142,748)
Cash and cash equivalents at the end of the year		5,830,506	4,993,722

NOTES

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

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

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

2. Summary of Significant Accounting Policies

Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the European Union by the end of the year 2015, 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. It is the opinion of the Management that application of new and revised IFRS which are not yet effective will not have material effect on the financial statements.

Basis of preparation

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

Risk management

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

Revenue recognition

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 Company's current tax rate is 20%.

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

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

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

Property, plant and equipment

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

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

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

Inventories

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

Provisions

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

Financial assets

Financial assets are 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.

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

Investments held to maturity

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

Loans and receivables

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

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.

Derecognition of financial assets

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

2. Summary of Significant Accounting Policies (continued)

Financial liabilities and equity instruments

Financial liabilities

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

Financial liabilities at FVTPL

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

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

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

Other financial liabilities

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

Derecognition of financial liabilities

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

4. Revenues

The consolidated composition of revenues, is specified as follows

	2016	2015
Revenue from sales	11,205,968	9,578,762
Revenue from services	18,497,147	14,098,774
Revenue from long term assets.....	3,305,203	2,335,389
	<u>33,008,318</u>	<u>26,012,925</u>

Salaries	10,770,430	8,504,670
Pension fund, employers's contribution	1,261,081	996,118
Payroll taxes	846,012	704,344
Salary-related expenses	178,477	117,439
Additional contribution to pension fund and changes in vacation obligation	401,000	324,047
Capitalized employment expenses	(166,828)	(72,078)
Contractor payments	10,149	12,690
Other employee expenses	<u>563,512</u>	<u>453,923</u>
	<u>13,863,834</u>	<u>11,041,154</u>

Average number of employees	1,215	1,017
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The Company's total management salaries and benefits for the year 2016 were ISK 75.6 million compared to ISK 72.4 million for the year 2015. The Company's CEO and Managing Director of Duty Free Store ehf. and Tern Systems ehf. salaries are decided by the wage negotiation committee.

6. Fees to auditors

	2016		2015	
	Audit	Other service	Audit	Other service
Deloitte ehf.	23,286	16,926	18,670	13,574

Other service are mainly accounting and tax service and assistance on tax return.

7. Financial income and expenses

Financial income

	2016	2015
Interest on bank deposits	202,952	100,753
Interest revenue on investments held to maturity	34,234	28,465
Other interest revenue	<u>112,556</u>	<u>89,935</u>
	<u>349,742</u>	<u>219,154</u>

Financial expenses

	2016	2015
Interest expense and indexation	(727,356)	(604,205)
Debt collection fee	(104,545)	(72,167)
Interest on late payments	<u>(5,189)</u>	<u>(2,835)</u>
	<u>(837,089)</u>	<u>(679,206)</u>

Net exchange rate differences

	2016	2015
Net exchange rate differences	<u>2,791,234</u>	<u>279,282</u>
	<u>2,791,234</u>	<u>279,282</u>

8. Income tax

Income tax has been calculated and recorded in the Financial Statements, the amount charged in the Income Statement is ISK 1,703.1 million. Income tax payable in the year 2017 is ISK 1,075.7 million. In year 2015 income tax charged in the Income Statement was ISK 745.2 million and income tax payable in year 2016 was ISK 480.7 million.

The effective tax rate is specified as follows:

	2016		2015	
	Amount	%	Amount	%
Profit before taxes	8,625,890		3,818,271	
Tax rate	1,725,178	20.0%	764,573	20.0%
Non-taxable revenues	(19,791)	(0.5%)	(18,329)	(0.5%)
Joint taxation	(3,402)	(0.3%)	(10,869)	(0.3%)
Other changes	1,075	0.3%	9,803	0.3%
Income tax acc. to Statement of Comp. Income	1,703,060	19.5%	745,178	19.5%

9. Property, plant and equipment

	Buildings and artwork	Aprons and car parks	Control systems	Other assets	Total
Cost					
Balance at 1 January 2015	21,146,281	3,801,903	4,444,438	6,505,321	35,897,943
Additions	3,001,301	938,734	311,404	3,202,070	7,453,509
Disposals	(67,882)	0	(369,417)	(108,455)	(545,754)
Balance at 31 December 2015	24,079,700	4,740,637	4,386,424	9,598,937	42,805,698
Revaluation	0	0	9,018	(9,018)	0
Additions	6,126,606	5,221,393	407,736	1,978,887	13,734,621
Disposals	0	0	0	(148,375)	(148,375)
Balance at 31 December 2016	30,206,306	9,962,029	4,803,178	11,420,431	56,391,944
Accumulated depreciation					
Balance at 1 January 2015	4,870,855	1,063,198	1,999,826	2,249,442	10,183,320
Charge for the year	550,546	191,609	334,396	656,983	1,733,533
Disposals	(63,600)	0	(365,511)	(107,356)	(536,467)
Balance at 31 December 2015	5,357,801	1,254,807	1,968,711	2,799,068	11,380,386
Charge for the year	672,774	251,347	333,247	960,098	2,217,466
Disposals	0	0	0	(127,568)	(127,568)
Balance at 31 December 2016	6,030,575	1,506,154	2,301,959	3,631,599	13,470,284
Book value					
Book value 1 January 2016	18,721,899	3,485,830	2,417,714	6,799,869	31,425,312
Book value at year-end	24,175,731	8,455,876	2,501,220	7,788,834	42,921,660

Estimated useful lives of fixed assets are as follows:

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

Information about the revalued properties in year-end:

	31.12.2016	31.12.2015
Revalued book value	115,708	118,704
Impact of the special revaluation	(56,501)	(58,116)
Book value without impact of revaluation	59,207	60,589

9. Property, plant and equipment (continued)

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

	2016		2015	
	Assessment value	Insurance value	Assessment value	Insurance value
Consolidation				
Buildings and sites	21,970,934	44,483,064	19,569,309	43,428,038
Machinery and equipment, asset insurances		12,899,952		10,762,090
Other insurances		712,958		3,576
Halt insurance		13,158,988		8,005,510

10. Intangible assets and amortization

Consolidation	Usage agreement on facilities	Usage agreement on runways	Software	Total
Cost				
Balance at 1 January 2015	477,035	5,706,000	1,018,493	7,201,528
Additions	0	0	131,848	131,848
Disposals	0	0	(8,097)	(8,097)
Balance at 31 December 2015	477,035	5,706,000	1,142,244	7,325,279
Additions	0	0	93,997	93,997
Disposals	0	0	(3,159)	(3,159)
Balance at 31 December 2016	477,035	5,706,000	1,233,082	7,416,117
Amortization				
Balance at 1 January 2015	95,407	1,141,200	277,105	1,513,712
Charge for the year	15,901	190,200	69,817	275,918
Disposals	0	0	(8,097)	(8,097)
Balance at 31 December 2015	111,308	1,331,400	338,825	1,781,533
Charge for the year	15,901	190,200	110,949	317,050
Disposals	0	0	(3,159)	(3,159)
Balance at 31 December 2016	127,209	1,521,600	446,615	2,095,425
Book value				
Book value 1 January 2016	365,727	4,374,600	803,419	5,543,746
Book value at year-end	349,826	4,184,400	786,467	5,320,693

Due to the development of software intended for sale on the global market in the coming years, the development cost amounts to approximately ISK 62.5 million which was capitalized in calendar years 2012 to 2015. The software development was completed in the second half of calendar year 2015 and are availble for sale and already in use by clients. The Company has assessed the recoverable amount of this intangible asset and determined that this asset has not suffered an impairment loss. Other software is purchased and its estimated lifespan is 3-20 years.

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

11. The Consolidation

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

	Ownership%	Nominal amount	Principal activity
Shares in subsidiaries			
Duty Free Store ehf., Keflavik Airport	100.00%	50,000	Retail and commerce
Tern Systems ehf., Kopavogur	100.00%	80,000	Software and consulting
Domavia ehf., Reykjavik	100.00%	500	Real estate business
Suluk ApS, Greenland	100.00%	1,999	Services of air traffic controllers

	31.12.2016	31.12.2015
Bond loan, weighted average of interest rate 5.48%	260,494	304,073
Current maturities	(36,551)	(48,900)
	<u>223,944</u>	<u>255,174</u>

Construction contracts are projects which are conducted for The International Civil Aviation Organization related to the Joint Finance agreement.

Bonds and long term assets installments are specified as follows:

	31.12.2016	31.12.2015
Year 2016	-	48,900
Year 2017	36,551	48,900
Year 2018	36,845	39,985
Year 2019	37,153	39,985
Year 2020	37,475	39,985
Year 2021	37,812	39,985
Installments later	74,658	46,335
	<u>260,494</u>	<u>304,073</u>

13. Inventories

	31.12.2016	31.12.2015
Goods for resale	502,153	449,323
Goods in transit	31,998	17,652
Allowance for old and obsolete inventory	(14,665)	(13,132)
	<u>519,486</u>	<u>453,843</u>

Changes in allowance for old and obsolete inventory:

At the beginning of the year	(13,132)	(44,558)
Reversed allowance for old and obsolete inventory	(19,040)	13,981
Inventories written off	17,507	17,445
At year-end	<u>(14,665)</u>	<u>(13,132)</u>

Insurance value of inventories	708,382	662,594
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No inventories have been pledged at year-end 2016.

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

14. Other financial assets

Accounts receivables

	31.12.2016	31.12.2015
Domestic receivables	1,897,470	1,340,711
Foreign receivables	493,387	264,018
Construction contracts	121,809	70,409
Allowances for doubtful accounts	(58,289)	(42,129)
Receivables Joint Finance contract	171,387	0
	<u>2,625,764</u>	<u>1,633,010</u>

14. Other financial assets (continued)

Aging and allowance for doubtful accounts

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

	31.12.2016		31.12.2015	
	Gross amount	Allowance	Gross amount	Allowance
Receivables not yet due	1,726,539	20,380	1,225,115	12,359
Receivables, overdue 1-90 days	673,977	14,969	377,922	15,059
Receivables, overdue 91-180 days	90,292	9,816	50,910	10,263
Receivables, overdue 181-210 days	10,208	9,232	12,502	4,274
Receivables, overdue 211 days and older	11,648	3,892	8,690	174
	<u>2,512,665</u>	<u>58,289</u>	<u>1,675,139</u>	<u>42,129</u>

Changes in the allowance for doubtful accounts:

	31.12.2016	31.12.2015
At the beginning of the year	(42,129)	(68,006)
Impairment loss recognized on receivables	(16,171)	(9,900)
Amounts written off as uncollectable.....	11	35,777
At year-end	<u>(58,289)</u>	<u>(42,129)</u>

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

Other receivables

	31.12.2016	31.12.2015
Value added tax, receivables	1,320,776	392,541
Prepaid expenses	96,776	89,984
Capital income tax	29,620	21,342
Prepaid salaries	64,421	48,050
Other receivables	238,837	281,599
	<u>1,750,430</u>	<u>833,516</u>

Bank balances and cash

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

	31.12.2016	31.12.2015
Bank balances in ISK	1,487,033	889,241
Bank balances in foreign currencies	1,168,823	4,099,412
Cash in ISK	12,436	5,069
Time deposit	3,162,214	0
	<u>5,830,506</u>	<u>4,993,722</u>

15. Equity

Share capital is specified as follows:

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

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.

16. Long term borrowings

	Loans from credit institutions	
	31.12.2016	31.12.2015
Liabilites in CHF	2,599,378	3,236,070
Liabilites in EUR	11,721,939	7,612,680
Liabilites in GBP	0	952,042
Liabilites in JPY	0	801,404
Liabilites in SEK	0	265,128
Liabilites in USD	3,167,489	3,846,217
Liabilites in ISK	6,717,676	1,851,150
	24,206,482	18,564,692
Current portion of long term liabilities	(1,236,190)	(1,017,218)
	<u>22,970,292</u>	<u>17,547,474</u>

Installments of non-current liabilities are specified as follows:

	Loans from credit institutions	
	31.12.2016	31.12.2015
Current maturities	-	1,017,218
Installments in 2017	1,236,190	891,142
Installments in 2018	1,131,133	765,366
Installments in 2019	1,260,336	884,503
Installments in 2020	1,389,881	1,003,975
Installments in 2021	1,396,475	1,010,433
Installments later	17,792,467	12,992,054
	<u>24,206,482</u>	<u>18,564,692</u>

Loans amounting to ISK 22,833.3 million are subject to financial covenants regarding equity ratio. Thereof loans amounting to ISK 3,822.7 million are also subject to condition of net interest bearing debts/EBITDA ratio. The financial covenants are reviewed on a regular basis and it is management view that they are unlikely to be breached.

17. Deferred tax liability

	31.12.2016	31.12.2015
Balance at beginning of the year	1,359,680	1,095,231
Effects from joint taxation	(3,402)	(10,870)
Calculated income tax for the year	1,706,462	756,048
Income tax payable for the next year	(1,075,721)	(480,729)
Balance at the end of the year	<u>1,987,019</u>	<u>1,359,680</u>

Deferred tax balances consist of the following account balances

	31.12.2016	31.12.2015
Property, plant and equipment	1,600,928	1,349,678
Current assets	5,823	6,386
Other items	(11,002)	(22,585)
Exchange differences	391,270	26,200
	<u>1,987,019</u>	<u>1,359,680</u>

Accounts payable

	31.12.2016	31.12.2015
Domestic accounts payable	2,336,971	1,647,834
Accounts payable - Joint finance agreement	0	915,912
Foreign accounts payable	230,156	226,773
	<u>2,567,127</u>	<u>2,790,519</u>

Current maturities of long-term liabilities

	31.12.2016	31.12.2015
Loans from credit institutions	1,236,190	1,017,218
	<u>1,236,190</u>	<u>1,017,218</u>

Other current liabilities

	31.12.2016	31.12.2015
Value added tax, payable	23,111	14,459
Deferred revenue	13,206	18,550
Accrued additional contribution to pension fund	221,496	168,968
Salaries and related expenses payable	514,909	416,246
Accrued holiday commitment	1,119,385	913,741
Accrued interest, payable	142,413	128,998
Other liabilities	106,331	196,606
Deferred revenue	187,850	0
Unfinished construction contract	7,121	0
	<u>2,335,821</u>	<u>1,857,569</u>

19. Financial risk**Financial instruments**

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

Financial assets	31.12.2016	31.12.2015
Bank balance and cash	5,830,506	4,993,722
Financial assets that are intended to hold to maturity	260,494	304,073
Loans and receivables	4,214,997	2,328,491

Financial liabilities	31.12.2016	31.12.2015
Other financial liabilities	30,185,151	23,693,508

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.

19. Financial risk (continued)

Interest rate risk

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

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

Sensitivity analysis

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

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

	31.12.2016		31.12.2015	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on profit or loss and other equity	(66,810)	(133,623)	(48,106)	(96,212)

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 exchange rates are based on mid rates.

Currency	Year-end rate		Average rate	
	2016	2015	2016	2015
EUR	119.13	141.32	133.78	146.35
GBP	138.91	192.06	164.27	201.64
JPY	0.966	1.076	1.113	1.090
CHF	110.81	130.50	122.66	137.21
DKK	16.02	18.94	17.97	19.62
NOK	13.11	14.75	14.39	16.40
SEK	12.43	15.40	14.16	15.65
USD	112.82	129.59	120.83	131.91
CAD	83.72	93.27	91.18	103.42

Foreign currency risk 31.12.2016

	Assets	Liabilities	Net balance
EUR	1,210,340	11,882,603	(10,672,263)
GBP	70,601	11,659	58,942
JPY	1,537	0	1,537
CHF	63,468	2,611,332	(2,547,864)
DKK	54,257	13,026	41,231
NOK	2,861	3,291	(430)
SEK	2,186	2,891	(705)
USD	257,573	3,194,161	(2,936,589)
CAD	1,387	0	1,387

19. Financial risk (continued)

Foreign currency risk 31.12.2015

	Assets	Liabilities	Net balance
EUR	3,412,015	7,740,674	(4,328,660)
GBP	763,573	964,378	(200,805)
JPY	4,576	801,404	(796,828)
CHF	19,344	3,243,357	(3,224,013)
DKK	11,834	13,358	(1,524)
NOK	3,125	12,452	(9,327)
SEK	564	267,196	(266,632)
USD	142,419	3,897,449	(3,755,029)
CAD	5,981	0	5,981

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 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. 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. An 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

	31.12.2016		31.12.2015	
	5%	10%	5%	10%
EUR	(426,891)	(853,781)	(173,146)	(346,293)
GBP	2,358	4,715	(8,032)	(16,064)
JPY	61	123	(31,873)	(63,746)
CHF	(101,915)	(203,829)	(128,961)	(257,921)
DKK	1,577	3,155	(61)	(122)
NOK	(17)	(34)	(373)	(746)
SED	(28)	(56)	(10,665)	(21,331)
USD	(117,464)	(234,927)	(150,201)	(300,402)
CAD	55	111	239	478

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	
	31.12.2016	31.12.2015
Bonds and other long term assets	260,494	304,073
Accounts receivables	2,625,764	1,633,010
Other receivables	1,589,233	695,482
Bank balances and cash	5,830,506	4,993,722
	10,305,997	7,626,286

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

19. Financial risk (continued)

Liquidity risk management

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

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

	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2016				
Non-interest bearing	5,978,669	0	0	5,978,669
Floating interest rates	1,139,714	4,732,936	17,071,243	22,943,893
Fixed interest rates	96,475	444,889	721,225	1,262,589
	7,214,858	5,177,825	17,792,468	30,185,151
Assets 31.12.2016				
Non-interest bearing	4,064,867	0	0	4,064,867
Floating interest rates	6,017,187	149,286	74,658	6,241,131
	10,082,054	149,286	74,658	10,305,997
Net balance 31.12.2016	2,867,196	(5,028,540)	(17,717,810)	(19,879,153)
	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2015				
Non-interest bearing	5,128,817	0	0	5,128,817
Floating interest rates	927,876	3,133,014	13,177,792	17,238,682
Fixed interest rates	89,342	411,973	824,696	1,326,010
	6,146,034	3,544,987	14,002,488	23,693,508
Assets 31.12.2015				
Non-interest bearing	2,338,476	39,939	35,235	2,413,650
Floating interest rates	5,032,637	120,000	60,000	5,212,637
	7,371,113	159,939	95,235	7,626,286
Net balance 31.12.2015	1,225,078	(3,385,048)	(13,907,253)	(16,067,222)

20. Other issues

Revenues of International Air Navigation Services

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

Court Proceedings

In the year 2015 Drifa ehf. started Court proceedings against Isavia ohf. demanding compensation for alleged damages in connection with the pre-qualification process when renting commercial space in the duty free area of Leifur Eiríksson Air Terminal. A selection committee considered an offer from another bidder more advantageous. The amount of Compensation claimed is ISK 1,563 million. Isavia ohf. is on the opinion that it acted in accordance with the pre-qualification procedure and the lawsuit is without merit.

21. Other obligations

Operating license

Isavia ohf. holds a license from the Iceland Civil Aviation Administration for the operations of air navigation services under regulation No. 1129/2014 and a license for the operation of airports according to regulation No. 464/2007. The Company is also a holder of flight operating license to operate aerial work (flight test etc.) according to regulation No. 97/2009. The licenses are granted for variable periods. Licenses for the operations of air navigation service is valid until 2021 and Keflavik Airport, Reykjavik Airport, Akureyri Airport and Egilsstadir Airport are valid until December 31st, 2017. 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 International and Security Affairs Department of the Ministry for Foreign Affairs shall be responsible for liaising between the Company and the American Military Authorities, whether directly or indirectly.

Service agreement for construction

The service agreement between the Ministry of the Interior and the Company applies to maintenance and construction of airports others than Keflavik Airport. The company works with the Ministry of the Interior and prepares a proposal for maintance and construction which the company believes is neccessary to perform in accordance with the National Transportation Policy. The construction projects are included in this plan and are therefore agreed, according to the transportation policy. Payments are received according to a payment plan. In 2015 the amount for construction projects was in total ISK 349.9 million (2015: ISK 354.2 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 250,000,000 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 ISK 300,000,000.

Obligation due to employees

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

22. Related parties

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

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

23. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on March 16th, 2017.

24. Consolidated ratios

From Statement of Comprehensive Income:		2016	2015
Profitability			
Earnings before interests, taxes, depreciation and amortisation (EBITDA)		8,856,519	6,008,492
a) Contribution margin on operation		26.83%	23.10%
b) Profit margin on operating revenue		20.97%	11.81%
c) Earning per share (EPS)		1.24	0.55
d) Return on equity		29.34%	16.52%
a) EBITDA/total revenue			b) Net income/total revenue
c) Earnings per share (EPS)			d) Net income/average equity
From Balance sheet:		31.12.2016	31.12.2015
Activity ratios			
e) Investment in inventories		0.02	0.02
f) Rate of return on assets		0.63	0.60
g) Inventory turnover		11.20	10.76
h) Receivables turnover		15.50	15.76
e) Inventory/revenues	g) Cost of goods sold/average inventory		
f) Net income/average total assets	h) Reveneus/average accounts receivables		
Liquidity ratios			
i) Quick or acid-test ratio		1.42	1.22
j) Current ratio		1.49	1.30
k) Net Interest Bearing Debts/EBITDA		2.03	2.26
i) (Current assets - inventories)/average total assets	j) Current assets/current liabilities		
Coverage ratios			
l) Equity ratio		45.68%	44.56%
m) Internal value of shares		4.84	3.60
l) Shareholders equity/total assets	m) Shareholders equity/capital stock		
From Cash flow:		2016	2015
n) Net cash debt coverage		0.19	0.25
o) Quality of sales		0.89	2.06
p) Quality of net profit		1.13	1.78
n) Cash flow from operat./Total liabilities	o) Paid in revenue/stated revenue		
	p) Cash flow from operat./net profit		
Operating expenses as percentage of revenues		2016	2015
Cost of goods sold/income from retail division		16.51%	18.13%
Salaries and related expenses/operating revenues		42.00%	42.44%
Administrative expenses/operating revenues		2.22%	2.48%
Other operating expenses/operating revenues		12.44%	13.85%
Depreciation and amortization/operating revenue		7.68%	7.72%
Operating expenses/operating revenues		80.85%	84.63%

25. Segment reporting

Segment information are disclosed on basis of organizational structure and internal management information. Segments are divided on basis of three operational components from the parent company and one subsidiary. Majority of Air navigation component consists of service to carriers granted on basis of the Joint Finance Agreement. Domestic systems are operation of airports and airport control towers for domestic flights. Keflavik airport are operation of airport and control tower in Keflavik in addition to Leifur Eiríksson Air Terminal. The Duty Free is a retail business and Others consists of support units of the parent company and two subsidiaries. One client has revenues that comprise more than 10% of the consolidation revenue, that is Icelandair Group ISK 5.964 million or about 18.1% of the consolidate operating revenues.

Segment information year 2016:

		Air- navigation	Domestic Airports	Keflavik Airport	Duty Free Store	Others	Eliminations	Consolidated
Revenue:								
External revenue		5,796,641	2,150,209	13,309,093	11,410,034	342,341		33,008,318
Inter-segment revenue		605,194	42,399	3,812,414	0	2,179,766	(6,639,773)	0
Total revenue		5,225,181	2,048,265	12,571,315	9,731,402	2,454,884	(6,018,122)	26,012,925
Comprehensive income:								
Operating profit		578,533	24,772	5,327,352	319,051	72,296		6,322,003
Net financial income / (expenses)								2,303,887
Profit before taxes								8,625,890
Total comprehensive income								6,922,830
Balance sheet:								
Non-current assets								48,466,297
Other assets unallocated to segments						1,281,920		10,762,737
Total assets		3,652,045	906,997	42,274,767	350,568			59,229,033
Total liabilities								32,172,170
Other information:								
Capital additions		764,048	125,869	12,464,160	102,310	375,728		13,832,115
Depreciation and amortization		263,338	79,256	2,052,082	94,465	45,374		2,534,516

Segment information year 2015:

		Air- navigation	Domestic Airports	Keflavik Airport	Duty Free Store	Others	Eliminations	Consolidated
Revenue:								
External revenue		4,742,496	1,960,956	9,273,006	9,731,402	305,065		26,012,925
Inter-segment revenue		482,684	87,309	3,298,309	0	2,149,819	(6,018,122)	0
Total revenue		4,570,385	1,916,418	9,876,154	8,734,192	2,117,157	(5,134,869)	22,079,436
Comprehensive income:								
Operating profit		374,775	-10,403	3,444,614	190,429	(373)		3,999,041
Net financial income / (expenses)								(180,770)
Profit before taxes								3,818,271
Total comprehensive income								3,073,094
Balance sheet:								
Non-current assets								37,224,232
Other assets unallocated to segments						1,044,917		7,962,990
Total assets		3,128,041	876,465	31,830,792	344,016			45,187,222
Total liabilities								25,053,188
Other information:								
Capital additions		642,318	223,351	6,511,737	99,791	108,161		7,585,357
Depreciation and amortization		192,478	72,268	1,572,623	86,405	85,677		2,009,451



