



ISAVIA

Annual and CSR Report  
2017



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This is Isavia’s second Annual and CSR 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 special provisions on the operation of airports.

Over the next few years, further efforts will be made to boost the company’s sustainability. The information in the report is based on operations in 2017.





# ISAVIA'S OPERATIONS



**VISION**  
Centre for aviation in the North Atlantic.

**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 pleasant journey both in Iceland and abroad.

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 operated wholly 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 Icelandic Ministry of Transport and Local Government, 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 purpose. 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: Keflavík 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.

Keflavík Airport has two runways, which are 3,054 and 3,065 m long. Reykjavik Airport has two runways (1,567 and 1,230 m long), Akureyri Airport has one (2,400 m) and Egilsstaðir Airport has one (2,000 m). Other airports and landing sites have runways ranging from 634 m to 1,887 m in length.



# CENTRE FOR AVIATION IN THE NORTH ATLANTIC

**2017 WAS A YEAR OF FURTHER EXPANSION AT ISAVIA, PARTICULARLY AS REGARDS SERVICES FOR INTERNATIONAL FLIGHTS.**

Never before have so many aircraft flown through Isavia airspace, and never before have so many international passengers on scheduled flights used Icelandic airports as in 2017. This was the third consecutive year of increases in scheduled-flight passengers after four years of decreases previously. Although there is some way to go before passenger numbers return to the highs previously seen in the domestic system, this trend appears to be holding.

## Domestic flights

Care needs to be taken as regards domestic flights in Iceland. This mode of public transport is clearly meeting stiff competition from other modes of subsidised transport. As previously, Isavia attaches great importance to ensuring that domestic flights are a genuine option for travel within Iceland. That said, the current arrangements for funding maintenance and operations for Iceland's domestic system infrastructure – which is owned by and is the responsibility of the Icelandic state – has reached saturation point, and there is a real risk of services needing to be reduced because of a lack of normal maintenance. Isavia has highlighted the importance of the infrastructure owners – the Icelandic state – securing long-term funding for the system to enable domestic flights to continue to be a genuine option alongside other domestic modes of transport. Time is moving fast as regards this essential project, as there is a risk that certain parts of the infrastructure will soon become so worn and damaged that the cost of getting them back up to standard will multiply.



## Air navigation services

Management of air navigation services saw an increase in traffic in line with the previous year. This great expansion requires more human resources and updated technical equipment. Work is currently ongoing on renewing the flight data system in the flight control centre. The new system will take over from the current one, which has been operating for some seventeen years and is approaching maximum capacity. The system will be designed by Term, a subsidiary of Isavia, in co-operation with Isavia's Air Navigation Division.

Last year was the first full year of operations for Suluk, another Isavia subsidiary, which proposes air-traffic controllers for air-traffic control services at Kangerlussuaq Airport in Greenland. Another aspect of the project is training Greenlandic air-traffic controllers to provide this service in the future. Isavia and its predecessors have for many years enjoyed good co-operation with both Greenland and Denmark in the field of air navigation. It is a pleasure to see good long-term co-operation expanded in this way.

## Keflavík Airport

Passenger movements at Keflavík Airport increased by some 2 million (28%) in 2017. This is a comparable increase to that in the year before. Isavia's passenger forecast expects an increase of more than 1.6 million passenger movements this year. Although this is less than in 2017, it is still substantial. Proportionally, the increase in recent years has been greater outside of the summer period than during summer, which is in line with the priorities of the airport, the tourism industry and airport users. 2017 was the first year in Iceland's history in which the number of foreign tourists in the summer period June–August was equalled by the number of foreign tourists in the winter periods of January–March and November–December. Furthermore, passenger forecasts for 2018 predict that more foreign tourists will visit Iceland over the winter period than over the summer period. This success is remarkable, and it is especially interesting to note that the number of tourists now visiting Iceland over the winter months is higher than the number visiting over the summer months in 2015. These results are purely the fruit of co-ordinated efforts by all those involved in tourism, and it is very important for the sector to continue to work as one, to the benefit of the sector itself

and Iceland as a whole. It is equally important to government to protect the sector and not to put obstacles in its path.

If Keflavík Airport is to continue to absorb increase in passenger numbers, it is essential for development to continue. No stone will be left unturned in efforts to protect the competitiveness of Keflavík Airport. Increases in costs have already started to have an effect, and significant development over a relatively short period of time will almost inevitably lead to rises in user tariffs at the airport. If Keflavík Airport is remain competitive in the future, all interested parties must be well aware of the effect of higher costs on demand.



## Continuing to be part of a pleasant journey

In 2017, further efforts were made to hone the company's vision to be a flight hub for the North Atlantic. The key to success is co-ordinated efforts by Isavia staff, with services to passengers, flight operators and other customers playing a major role. Isavia has set itself the goal of being part of a pleasant journey for the tens of millions of passengers using the company's services – to achieve this important objective, co-operation among staff is essential.

I look forward to continuing to be part of a pleasant journey for my colleagues and would like to thank all Isavia staff warmly for their contribution to the great success enjoyed by the company in 2017. It is admirable to see Isavia staff playing such a decisive role in the pleasant journeys enjoyed by our customers as has proven to be the case.

Björn Óli  
Hauksson

# CHAIRMAN'S STATEMENT

ISAVIA OPERATIONS IN 2017 WERE IN MANY WAYS  
EVENTFUL, JUST LIKE IN PREVIOUS YEARS.



All areas of the company's operations saw expansion. As before, expansion in services for international travel was the major factor in this growth. There have been many changes in the company's operations since it was founded in 2010, and the weighting of the various work areas has changed considerably. This may be chiefly attributed to the increase in the number of international passengers using Keflavik Airport and in the increase in air traffic in Icelandic airspace – one of the largest airspace areas in the world, with more than a quarter of all flights over the North Atlantic passing through it. Isavia's core activities are made up of air navigation services, domestic

airports and Keflavik Airport. In 2011, Isavia's first full year of operations, air navigation services made up 31% of the company's turnover, domestic airports 12% and Keflavik Airport 57%. Last year, the company's biggest year, air navigation services made up 24% of the company's turnover, domestic airports 7% and Keflavik Airport 69%. Operations at Keflavik Airport accounts for 87% of operating income before depreciation, and the share of Keflavik Airport in overall operation has increased considerably. It is clear that the biggest opportunities for continued growth and profitability lie there.

### Presentation of the Annual Report

This is Isavia's second Annual and Social Report, which follows the guidelines of the Global Reporting Initiative (GRI G4) together with special provisions on the operation of airports. It is a pleasure to see how well the company has succeeded in following the guidance set in 2016 on social responsibility, focusing on striking a balance between economy, environment and society. Focus has also been placed on meeting the provisions of the general owner policy of the state on publicly owned companies.

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HAS SUCCEEDED IN FOLLOWING THE GUIDANCE SET  
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STRIKING A BALANCE BETWEEN ECONOMY, ENVIRON-  
MENT AND SOCIETY.

This policy states that the company shall set policies on environmental matters, sustainable development, social responsibility, human resource and remuneration. Policies have been formulated for Isavia in all these areas, and the company has also set policies on risk, procurement, marketing, safety, quality and information security.

### Governance

The Board of Directors of Isavia has laid down detailed rules, including provision for following the Guidelines on Corporate Governance published by the Iceland Chamber of Commerce, SA Confederation of Icelandic Enterprise and Nasdaq OMX Iceland. These rules, as well as a description of the company's governance updated in March 2018, are available on the company's website. Isavia attaches importance to equal pay and was awarded PwC's gold medal in the company's equal pay audit in 2017, for the third year in a row. Preparations

are under way for equal pay certification and are expected to be completed by the end of 2018.

### The need for improvements at domestic airports

Isavia's role in operating and developing domestic airports is set out in its service agreement with the Ministry of Transport. Responsibility for funding such operations and development lies with the state. Funding is determined for one year at a time, and it is clear from experience that it is difficult

and inefficient to handle operations and development of the scale necessitated by airport security requirements without long-term funding being guaranteed. Furthermore, a persistent lack of operating income has meant that it has been impossible to carry

out satisfactory maintenance. Many airports have therefore reached a state where they will soon be closed down if proper action is not taken.

Last year, new rules from the European Aviation Safety Agency (EASA) entered into force, setting stricter requirements for operating international airports. As well as Keflavik Airport, the airports in Akureyri, Egilsstaðir and Reykjavik also need to meet these requirements, as they are all classed as international airports. The changes involved a review of the operating manuals of the airports in question, describing how the requirements laid down in the new rules are to be met.

### Growth in air navigation services

Isavia's air navigation services have not been unaffected by the increase in international flights in recent years. There has been much development in technical solutions and staff training to handle





to ensure that each element is as closely in line as possible with the overall picture of the airport's development. A review of the mandatory master plan for Keflavík Airport, which began in 2011, was approved by the Minister for the Environment in August last year. There has been parallel work in the local plan for the airport zone which is expected to be completed in mid-2018.

In conjunction with this work on the mandatory master plan and the local plan, in 2014, Isavia launched an international design contest for a master plan covering development of the airport in light of traffic and passenger forecasts to the year 2040. The plan represents the future vision for the airport's land-use plan, terminal plan and environmental plan and will be of use to all stakeholders in their decision making as regards investments and planning at the airport, with economy and environmentally friendly development as a guiding light. Six international companies with extensive experience in developing airports took part in the competition and submitted ambitious proposals, with the proposal from the Norwegian design studio Nordic Office of Architecture emerging as the winner. The company has been involved in numerous large-scale airport projects. Work on the project began in early 2015 and was completed later that year. Isavia staff have since been working on an evaluation of the commercial basis of the plan and a risk assessment, in close co-operation with major users, as development at Keflavík Airport chiefly takes account of their needs.

Approval of the master plan, processing of the local plan and the drafting of a development plan forms the basis for all further design and development plans at Keflavík Airport up to 2040. The Isavia Board of Directors agreed on 1 February to make the development plan the basis for all development at Keflavík Airport and to commence design work for the first elements of the development plan up to 2025. 2018 is expected to see a call for tenders for the building of a new baggage sorting and screening centre, to the east of the north wing of the terminal. This centre is expected to be ready in 2020. There are also plans to invite bid for further expansion of the connecting building, which is

this growth. As before, the focus is on effectiveness and foresight to meet the requirements of flight operators, who are calling more and more for flexibility and increased efficiency. A new extension of the flight control centre was brought online last year, as a lack of space had begun to put serious pressure on support services. Further expansion will need to be looked into in the coming years, and preparations have already begun. The main task will be to expand the flight control hall, as current air-traffic forecasts indicate that the current hall – inaugurated in the older building of the flight control centre in 1996 – will soon be too small.

**Future development at Keflavík Airport**

Work has been carried for many years at Keflavík Airport to meet the considerable and often unforeseen increase in passenger numbers. In parallel, there have been preparations and planning for new, extensive work which could increase capacity in the long term. The aim is to better enable Keflavík Airport to grow as an international airport for passengers flying to and from Iceland and as a hub for Europe, North America and Asia. Such work will not be undertaken in any satisfactory way if there is no statutory and recognised planning work beforehand. Isavia's Board of Directors has therefore, in recent years, focused on speeding up and completing this work



expected to be completed in 2021. The total costs of these works will be over ISK 30 billion over the next three years.

The next phase of the development plan involves a call for tenders within two years for passenger handling facilities in a new building to be built to the north of the current terminal and a new arrivals and departures wing to the east. These buildings are expected to come online in stages between 2023 and 2025. This work is expected to deal with the increase in passenger numbers expected over the coming decade.

It should be borne in mind that this a development plan for Keflavík Airport which assumes that the passenger forecast and business models of aircraft operators and those of Isavia prove to be accurate. The main task of the Board of Directors and managers of Isavia, in close co-operation with the major flight operators at Keflavík Airport, will be to arrange the timing of these works in accordance with expected passenger numbers and the business model from year to year.

**One team**

The number of passengers using Keflavík Airport last year are four times higher than in 2010, the year Isavia was founded. Over the same period, air traffic in Icelandic airspace has increased by 81% and air traffic at domestic airports by 4.5%. Isavia staff have, by means of exceptional co-operation and co-ordinated efforts, dealt with this huge increase, which has hardly been seen elsewhere and which has often exceeded expectations. Despite the unavoidable growing pains, the results have been considerably better than expected, considering the circumstances. There is therefore special reason to thank Isavia staff for their wonderful performance and their selflessness in challenging circumstances. We should also thank flight operators, management operators at Keflavík Airport, work contractors and their staff for their successful work on diverse and complex solutions. All this work has contributed to the dynamic growth in the tourism sector and increased foreign currency revenue and prosperity for Iceland, something which will hopefully continue in the future.

Ingimundur  
Sigurpálsson



# CORPORATE GOVERNANCE



## Structure and composition of governance

Isavia is a publicly owned company owned by the Icelandic state. The operations of the company are governed by 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 publicly owned companies, the state's general ownership policy of August 2012, the company's Articles of Association and the 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 it is not legally bound to do so.

One formal sub-committees – the Remuneration Committee – currently operates under the company's Board. A policy on social responsibility has been

set. No court rulings have been issued in which the company is believed to have broken any laws or regulations.

## Isavia 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. The gender ratio in Isavia's Board is 40% women and 60% men. All Board members are independent within the meaning of the Guidelines on Corporate Governance.

## 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 6 April 2017. They include the division of tasks between Board members, rules on the eligibility of politicians to take part in processing matters, procedure 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 between shareholders' meetings and ensure adequate supervision of the accounts and disposal of the company's property, as well as confirming the operating budget and investment plans and ensuring 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.

## The Board's performance assessment

The Board evaluates its performance regularly, the practices and Rules of Procedure, development of the company, performance of the Managing Director and the efficiency of sub-committees. The performance assessment involves, among other things, the Board evaluating the strengths and weaknesses of their

## Board of Directors 2017–18.

Ingimundur Sigurpálsson (born 1951), Business Administrator, Managing Director of Iceland Post. Chairman of the Board since 2014.

Sigrún Traustadóttir (born 1954), Business Administrator. Vice-Chairman of the Board since 2017.

Helga Sigrún Harðardóttir (born 1969), Attorney at Law, Executive Director of Icelandic Standards (IST). Member of the Board since 2017.

Matthías Imsland (born 1974), Political Scientist. Member of the Board since 2014. Vice-Chairman 2014–17.

Ólafur Þór Ólafsson (born 1972), MPA, teacher, President of the Sandgerðisbær Town Council. Member of the Board since 2017.

## Alternates:

Sigrún Traustadóttir (born 1975), MBA in Business Administration, Consultant.

Heiða Kristín Helgadóttir (born 1983), Political Scientist, Executive Director of Efni Media. Member of the Board of Directors 2014–15.

Ingvaldur Sæmundsdóttir (born 1970), MBA Business Administration, Assistant to the Minister for Transport and Local Government.

Margrét Kristín Helgadóttir (born 1982), Attorney at Law, Town Councillor in Akureyri Town Council, Lawyer at the Icelandic Directorate of Fisheries.

Sigrún Traustadóttir (born 1962), MBA in Business Administration, Consultant. Member of the Board of Directors 2014–17.

Further information on the Isavia Board of Directors can be found at: [isavia.is/um-isavia/stjorn](http://isavia.is/um-isavia/stjorn).

work and practices and reflecting on those aspects which the Board believes may be improved. This assessment has two aspects: a self-assessment conducted in December 2017 and a second assessment with assistance from an external source. The latter was conducted in January 2018.

## Internal controls and risk management

The Board has submitted a comprehensive risk policy for the company and defined the major operational risks. The main risks for the Group's financial transactions are exchange rate risk, currency 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. This committee – composed of the Managing Director, Deputy Managing Director, Director of Finance and the Director of the Financial Resources Department – regularly reports to Board. The company does not employ an internal auditor, but the company's auditors carry out limited audits of company processes.

## Remuneration Committee

The Remuneration Committee is a subcommittee of the Board. It is made up of the Chair and Vice-Chairman of the Isavia Board of Directors. The main tasks of the Remuneration Committee are to prepare an annual draft remuneration policy to be submitted to the company's Annual General Meeting, draft proposals for the Annual General Meeting on the remuneration of Board members, and draft proposals for the Board on benchmarks for salaries and other remuneration for the Managing Director and for Directors of subsidiaries. The Committee monitors implementation of the remuneration policy and compliance of salaries and remuneration with laws, regulations and best practices.

## Communication between shareholders and the Board

One shareholder, the Icelandic state, holds all shares in the company, 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. Shareholders' meetings are the main venue for providing information to shareholders and hold the supreme authority of the company. The Chairman and Managing Director met with the Minister or a representative from the Ministry on various occasions last year. 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.

## Corporate governance statement 2018

A new corporate governance statement has been issued for 2018 and is available on the company's website: [isavia.is/um-isavia/stjorn](http://isavia.is/um-isavia/stjorn).

## 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 Isavia website: [isavia.is/um-isavia](http://isavia.is/um-isavia). In addition, there is a separate section on disqualification in the Board's Rules of Procedure. This is available on the company's website: [isavia.is/um-isavia/stjorn/](http://isavia.is/um-isavia/stjorn/).

## 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 major. 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.

Björn Óli Hauksson (born 1961) has a Master's Degree in Operations Engineering from Aalborg University, Denmark. He has been Isavia's Managing Director since its founding in 2010.

# EXECUTIVE BOARD

THE EXECUTIVE BOARD DEBATES AND DISCUSSES MATTERS OF POLICY FORMULATION FOR THE COMPANY'S OPERATIONS AS A WHOLE. IT EXAMINES ISSUES CUTTING ACROSS FIELDS AND DEPARTMENTS.

The Executive Board also takes a leading role in safety and quality management in the company, is chiefly responsible for future development and the implementation of a safety and quality management system, has an overview of the running and effectiveness of the system and assesses achievement in respect of given objectives.

Five operating divisions 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. There are four support divisions: Development and Administration, Human Resources



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. Þröstur V. Söring
9. Hlynur Sigurðsson
10. Sigurður Ólafsson

and Performance and Finance, and in addition, Standards and Quality Management form a separate support unit. The Directors of the operations and support units form the Executive Board together with the Managing Director.

## 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 above Greenland and 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 Commercial Operations Division since 2016.

## Keflavík Airport Technology and Asset Division

The Keflavík Technology and Asset Division manages larger construction projects, environmental issues at Keflavík Airport, maintenance and the operation of real property and luggage 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 information issues, business development, project management office, policy formulation, legal issues, Keflavík Airport zoning, management of 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 Division**  
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.

Further information on the Executive Board of Isavia can be found on the website: [isavia.is/um-isavia](http://isavia.is/um-isavia).

SUBSIDIARIES



**Duty-Free Store ehf.**  
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 in conjunction with scheduled flights. The Duty-Free Store focuses on offering a wide range of goods from both Icelandic and international brands at reasonable prices. The Store has approximately 210 permanent employees. This number increases to around 310 during the summer. The Managing Director of the Duty-Free Store is Þorgerður Þráinsdóttir.

**Tern Systems ehf.**  
Tern Systems develops and manufactures software for air navigation services 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, Indonesia, Ireland, Morocco, South Korea and Spain. The company employs fifty employees in its main offices in Iceland. The Managing Director of Tern Systems is Magnús Þórðarson.

**Domavia ehf.**  
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.



# IMPROVEMENTS IN 2017 AND GOALS FOR 2018

## ISAVIA TOOK THE POSITIVE STEP OF ADOPTING GRI STANDARDS FOR ITS ANNUAL REPORTS LAST YEAR.

The advantage of this change was that the company gained a better overview of the impact of its operations – which are growing fast and are rapidly changing – on the community. It can be difficult to achieve improvements in such circumstances, but references such as GRI (Global Reporting Initiative) make it much easier to see where efforts should be focused. The company worked systematically on improvements over the year, with some year-on-year achievement, as shown in the adjacent table.

Four areas required reassessment – two of these related to environmental matters. Although total energy use increases where passenger numbers increased the most, it was possible to reduce energy use and greenhouse gas emission per passenger.

The last report indicated that there was an insignificant risk of infringements related to freedom of association and child labour, as Isavia operates exclusively in Iceland. A review of the guidance on these aspects revealed that measures could be taken to try to prevent any such infringements throughout the company’s whole value chain. A Code of Ethics for the company’s suppliers was therefore drawn up. This Code was approved by the Managing Director in mid-2017. Work is ongoing on implementing this Code, including adding relevant clauses to calls for tenders and contracts. Until these rules have been fully implemented, Isavia feels it is reasonable that these aspects should have only partially been fulfilled.

### Objectives for 2018

Isavia has set itself eight objectives relating to social responsibility for 2018 and has drawn up an action plan for each one. When selecting objectives and improvement projects, the company has focused on the nature of its operations and policies and on which aspects require most urgent attention.

As well as taking account of GRI aspects when selecting objectives for 2018, the objectives in question relate to the company’s commitment to the main rules of the UN Global Compact, to the “Responsible Tourism” incentive programme run by Festa (Centre for Corporate Social Responsibility) and Iceland Tourism, to the Sustainable development goals of the United Nations and to company policy. Air Transport Action Group (ATAG), an organisation within the aviation sector which aims to support sustainable growth, issued a report in 2017 linking the Global Goals of the United Nations to ideas for improvement projects for companies engaged in aviation-related activities. Isavia also took account of ATAG reporting when formulating its objectives, which link up to five of the seventeen Global Goals.

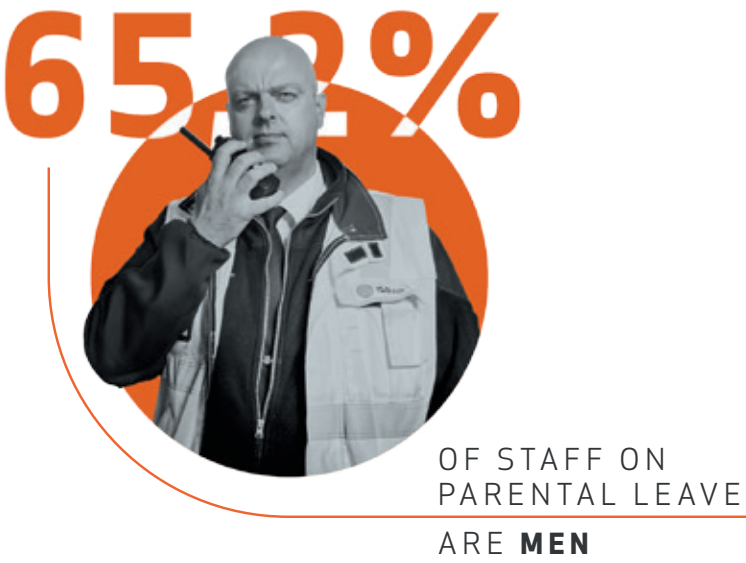
### Global Goal 3: Good health and well-being

The company has set itself the objective of reducing staff accidents which lead to absence. This objective is indirectly linked to Global Goal 3 and specifically to Target 3.6, which aims to “halve the number of global deaths and injuries from road traffic accidents” by 2020. The Air Transport Action Group (ATAG) report links this Global Goal to ongoing training in safety awareness in aviation, and Isavia uses this as its reference.

## IMPROVEMENTS 2016-17

- Achieved
- ◐ Partially achieved
- Not achieved
- N/A

Subject		Status		UNGC
		'16	'17	
GOVERNANCE				
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.	◐	●	
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.	○		
REMUNERATION AND INCENTIVES				
G4-52	Process for determining remuneration	◐	●	
ENVIRONMENTAL				
ENERGY				
G4-EN4	Energy consumption outside the organization, including fuel types used	○	◐	7,8
G4-EN5	Energy intensity	●	◐	7,8
G4-EN6	Reduction of energy consumption. Additionally for airports: Important for airports to share sectoral best practice.	◐	○	7,8
G4-EN7	Reductions in energy requirements of products and services	○	◐	7,8
EMISSIONS				
G4-EN19	Reduction of greenhouse gas (GHG) emissions. Additionally for airports: Reference to ACI-ACA Airport Carbon Accreditation Program.	●	◐	8
EFFLUENTS AND WASTE				
G4-EN22	Total water discharge by quality and destination	○	◐	8
A06	Airport disclosure: Aircraft and pavement de-icing/anti-icing fluid used and treated by m3 and/or metric tonnes	◐	●	7,8
G4-EN24	Total number and volume of significant spills	○	●	7
NOISE				
A07	Special clauses for airports: Change in the number and percentage of people residing in areas affected by noise	◐	●	7,8
HUMAN RIGHTS				
INVESTMENT				
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	○	◐	2
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	●	◐	2
CHILD LABOUR				
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	●	◐	2



**Global Goal 5: Gender Equality**

Isavia has set itself the objectives of equal pay for equal work and of increasing the number of women in third-level management positions, i.e. middle management. This action relates to Global Goals 5.1, which aims to “end all forms of discrimination against all women and girls everywhere”, and 5.5, which aims to “ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life”. Efforts will be focused on Indicator 5.5.2, which measures the proportion of women in managerial positions. Data collected by the United National from 67 countries show that women currently occupy less than a third of managerial positions.

**Global Goal 12: Responsible consumption and production**

Isavia has set itself the objective of increasing the share of sorted waste in its operations. This links up to Global Goal 12 on responsible consumption and particularly Target 12.6, which aims to “substantially reduce waste generation through prevention, reduction, recycling and reuse” by 2030.

The company has also set itself the objective of making its purchasing more transparent, more traceable and more accessible and in this connection, adopting the Code of Ethics for suppliers which was approved by the Managing Director last year. This links up to United Nations’ Target 12.6, which aims to “encourage companies [...] to adopt sustainable practices”, and Target 12.7, which aims to “promote public procurement practices that are sustainable, in accordance with national policies and priorities”.

**Global Goal 13: Climate action**

Isavia has set itself the objective of reducing use of fossil fuels. This links up to Global Goal Target 13.2, which aims to “integrate climate change measures into national policies, strategies and planning”. Isavia also participates in the Airport Carbon Accreditation (ACA) system, run by Airports Council International. The ACA is a form of carbon accreditation for airports and is therefore customised to airport operations. Keflavík Airport has taken part in the project for two years. The objective has been set to reduce carbon emissions by 2030, and work on a detailed plan to achieve this objective is ongoing.

**Global Goal 17: Partnerships for the Goals**

Isavia’s partnership-related action focuses on further strengthening co-operation with the company’s stakeholders by means of effective and co-ordinated communication. This links up to United Nations’ Target 17.17, under which the company aims to “encourage and promote effective public, public-private and civil society partnerships”.

In 2018, the company will continue to work towards achieving long-term objectives and action linked to Global Goals.

**GOALS**

**LINK TO:**

No.	Name of goal	Global goal	Responsible tourism	GRI	UNGC
1	Reduce the use of fossil fuels in Isavia operations		Environment	G4-EN1, G4-EN2, A05, G4-EN21, G4-EN15, G4-EN16, EN-18, EN-19	7, 8
2	Increase proportion of sorted waste		Environment	G4-EN23, G4-EN27, G4-EN28	7, 8, 9
3	Annual frequency of lost time accidents to become 0		Safety	G4-LA6, G4-LA7	1
4	Adopt supplier code of ethics approved by the Managing Director 27 June 2017		Local community	G4-EN32, G4-HR6, G4-HR10, G4-HR11, G4-LA14, G4-LA15, G4-SO9, (G4-HR1)	2, 4, 8
5	Make purchases made by Isavia ohf. more transparent, traceable and accessible		Local community	G4-57	10
6	Focused and harmonised communications with external stakeholders		Local community	G4-S01	1
7	Increase the number of female managers in the company's third-level management		Human Resources	G4-LA12	6
8	Same wages for equally valuable jobs		Human Resources	G4-LA13	6



# SNAPSHOTS 2017

## RE-UNVEILING OF ÁTTIR AT A NEW LOCATION

The artwork Áttir by Steinunn Þórarinsdóttir was re-unveiled yesterday at a new location. At the unveiling, the ribbon was cut jointly by the artist and Managing Director of Isavia, Björn Óli Hauksson. The piece has previously stood in the shopping area of the terminal, but due to a large increase in passenger numbers in recent years, it was temporarily taken down. In consultation with the artist, a new place for the piece has been found outside the arrivals area of the terminal.



## UNVEILING OF ERRÓ ARTWORK AT KEFLAVÍK AIRPORT

In May, a wonderful new piece of art by Erró was unveiled at Keflavík Airport. The piece is named Silver Sabler and is a wall installation made of hand-painted ceramic tiles. The piece is a remake of a painting from 1999 with the same name but has been enlarged to a ceramic image which is 11 m wide and 4.5 m high.

## SIGNING OF SPACE- BASED SURVEILLANCE AGREEMENT

Last year, Isavia signed an agreement with Aireon for the use of space-based surveillance equipment for controlling air traffic in Icelandic airspace. The technology is known as "Space Based ADS-B" and will enable more accurate information of aircraft positions in the northern part of Icelandic airspace.

## BIGGEST SUMMER EVER AT KEFLAVÍK AIRPORT

Keflavík Airport saw a total of 5,954,761 passengers in the period January–August, an increase of 32.4% on the same period the previous year. This increase is in line with the forecast issued by Isavia in late 2016, which predicted that 5,921,693 passengers would use the airport in the first eight months of the year. This was just 0.54% less than the actual figure.



## HISTORICAL INFORMATION BOARDS ABOUT MILITARY RELICS IN ÖSKJUHLÍÐ AND NAUTHÓLSVÍK

Last year, the Mayor of Reykjavík, Dagur B. Eggertsson, and Managing Director of Isavia, Björn Óli Hauksson, unveiled seven wonderful new historical information boards installed near significant military relics at Öskjuhlíð and Nauthólsvík. The boards are a co-operative project between Isavia and the City of Reykjavík. Isavia employee Friðþór Eydal collected the material and wrote the texts. Eydal has written a number of books about the military occupation of Iceland and is one of Iceland's leading experts in the subject.

## MEETING ON THE SUB- JECT OF LINKS BETWEEN KEFLAVÍK AIRPORT AND EMPLOYMENT DEVELOPMENT IN THE FISHERIES SECTOR

Isavia and Kadeco held a public meeting in Hljómahöll in Reykjanæsbær to discuss opportunities for employment development in the fisheries sector in the vicinity of Keflavík Airport. Keflavík Airport, as part of the transport chain to and from Iceland, has a key role to play in the continued development and growth in exports of fresh seafood products in the long term.





# ISAVIA IN THE SOCIETY

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39	—	RULINGS AND COURT JUDGMENTS INVOLVING ISAVIA OHF.IN 2017
40	—	HUMAN RESOURCES



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 over a large 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 SOCIAL RESPONSIBILITY POLICY IS GROUNDED IN EXPECTATIONS ON CORPORATE SOCIAL RESPONSIBILITY AS STATED IN THE GENERAL STATE OWNERSHIP POLICY, THE ACT ON ANNUAL ACCOUNTS AND THE ACT ON PUBLIC PROCUREMENT, TO NAME BUT A FEW.

**THE COMPANY HAS ESTABLISHED THE FOLLOWING POLICY AND OBJECTIVES FOR ITSELF AS REGARDS TO CSR:**

**Policy:**  
Isavia promotes balance between the economy, environment and society, with sustainability as a guiding light.

**Objectives**  
Isavia works actively and consistently towards the following goals:

- Ensure quality flight services in Iceland and carry out 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 reducing the operation's environmental impact.

Isavia is a signatory to the UN Global Compact and undertakes to ensure that its policies and work practices are in accordance with the ten basic principles of the United Nations on human rights, work issues, environmental issues and actions against corruption. Isavia also undertakes to publish information on the company's social responsibility in accordance with the criteria of UN Global Compact and GRI.

The Managing Director of Isavia has signed the UN Women's Empowerment Principles, which commits the company to work towards greater equality it in its operations. The agreement contains seven criteria to guide efforts to strengthen the position of women in companies and increase their participation in business.

Isavia has laid down a Code of Ethics for suppliers in accordance with the ten main aspects. A working group of representatives of the company's support divisions drew up these rules, which were approved by the Executive Board and the Managing Director in June 2017. The Code requires suppliers used by the company to adhere to the rules it contains and to ensure that their own suppliers do likewise. Upon request, suppliers must be able to demonstrate that these rules are being followed. The Code of Ethics for suppliers will be available on the Isavia website once they been adopted.





# STAKEHOLDERS

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

on their important interests. The Keflavík Airport User Committee meets as often as necessary but never less than once a year. As a rule, the user committee for 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. The are regular group meetings with retail and catering operators.

## 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 with the company's employees at airports and using all main communication formats: telephone, e-mails, websites and social media and through regular service surveys.

### Aircraft operators

Communications with airlines that pass through 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 committees can be attended by 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

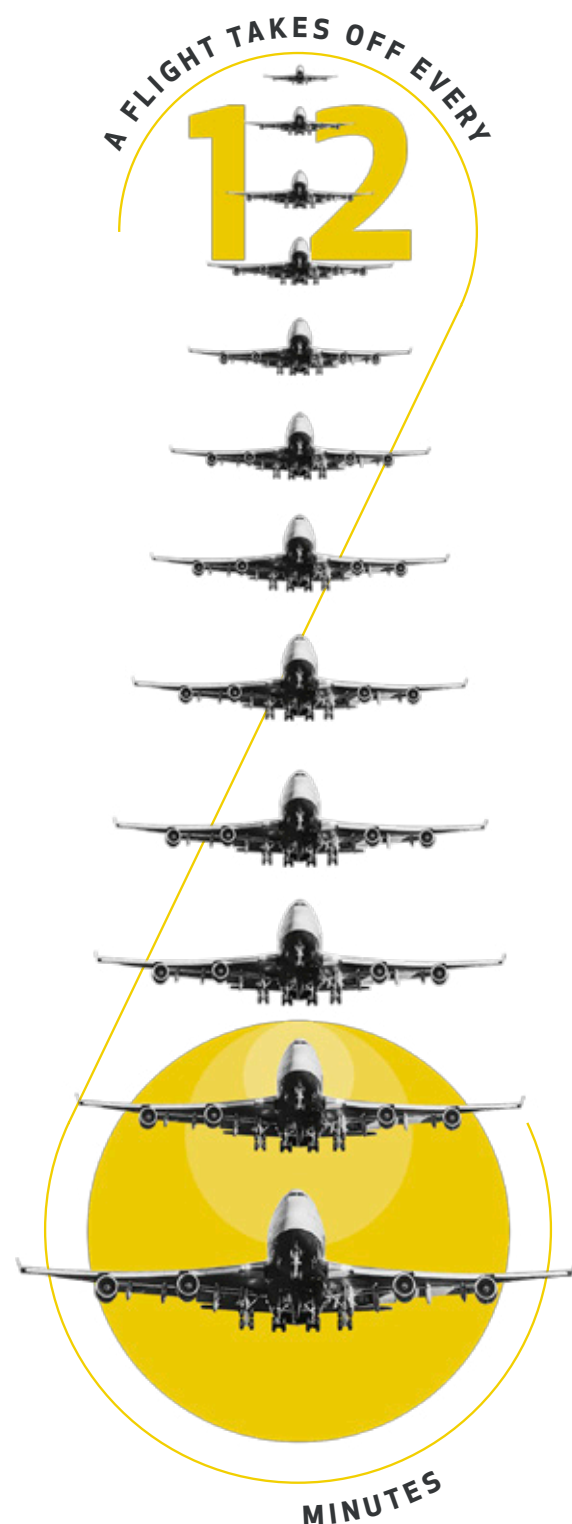




## Passengers

Communications with passengers run first and foremost via various media where enquiries are received and responded to, such as the isavia.is and kefairport.is websites and on the company's social media pages on Facebook, Twitter and Instagram. Isavia also regularly performs marketing and service surveys at its airports. Standardised service surveys have been carried out at Keflavík Airport for the past thirteen 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. Keflavík Airport has generally improved its position in recent years. In line with huge increases in passenger numbers, there have been times when overall satisfaction has fallen, and these can usually be traced to overcrowding in the terminal disruptions due to renovations and extensions of the terminal. Other surveys are carried out as needed in addition to these regular surveys.

Isavia has also carried out surveys of the general public in Iceland regarding attitudes towards the company's airports and the experience of those who have used them in any given year. The majority of respondents (66%) have had a positive experience of Keflavík Airport, and 68% have had a positive experience of domestic airports. These results are similar to 2016–17.



## EMPLOYEES

As well as usual channels in the workplace, communications with and between employees is first and foremost through regular staff meetings with the Managing Director, the company's intranet and events held by the staff association. Four staff meetings with the Managing Director of the company were held in 2017. These meetings dealt with current issues and future perspectives for the company's operations.

Much of the communication with staff happens via the company's intranet, Flugan. The intranet is a social media service connecting employees. Everyone can make entries and upload pictures and videos they wish to share with their colleagues. Employees, moreover, can retrieve various tools and equipment to use in their work and manage registrations of events, training courses and entertainment in the company.

In 2017, a Flugan app was created to further improve access to the intranet, particularly for staff who do not work at a computer. Updating the intranet in this way has increased the flow of information within the company.

Last year also saw a review of Isavia's external websites, [www.isavia.is](http://www.isavia.is) and [www.kefairport.is](http://www.kefairport.is). This involved creating a high-quality information website bringing together all airport web pages for passengers and customers in one place – [www.isavia.is](http://www.isavia.is). The website is scheduled to come online in March 2018.

The staff association of Isavia and its subsidiaries, Staffið (the Staff), organises numerous events for its members and is responsible for a diverse and dynamic social life, such a family outing during the summer, a Christmas buffet, trips to the cinema and bowling. In addition, the association has negotiated



Staff at Egilsstaðir Airport attended a course in airport security last year, organised in co-operation with the Airport Aviation Security Department of Keflavík Airport.

discounts with various companies for its members. All employees are eligible for membership in Staffið. Isavia considers it vital for staff to be able to socialise outside of work and gives support to the staff association. It also organised events to bring people together, such as the company's annual party.

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 for the employees of airport services at Keflavík Airport brought online.

Main organisations of which Isavia is a member
Travel Industry Association
Confederation of Icelandic Employers
American-Icelandic Chamber of Commerce
French-Icelandic Chamber of Commerce
Danish-Icelandic Chamber of Commerce
Project Management Association of Iceland
Stjórnvísí
Airport Council International
Icelandic Bar Association
Mannauður, Association of Human Resources Managers
ÍMARK – Marketing Association of Iceland
Association of Reykjanes Employers
Iceland Tourism
Iceland Ocean Cluster
Festa, Icelandic Centre for Corporate Social Responsibility
Iceland Chamber of Commerce
NAT-SPG, co-operative forum of States within the ICAO NAT Region
Borealis, co-operative forum for flight navigation service providers in North-West Europe
Civil Air Navigation Services Organisation (CANSO)

There are extensive communications with local authorities and regional associations in the neighbourhood of the airport such as the Suðurnes municipalities, the City of Reykjavík, Akureyri, Ísafjörður, Fljótshálsa, Sauðárkrúkur, Siglufjörður, Fjarðarbyggð, Hornafjörður, 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 impact on local communities. This is particularly true of the Suðurnes area, as Keflavík Airport is the largest workplace in the area. It is a matter of significant interest that communications with local authorities are positive, and it is important that a future vision is formulated for these extremely important transport facilities in each location.

Many members of Isavia staff have given talks at various external conferences and events, as can be seen on the next page.

The Isavia Board of Directors also holds annual meetings outside of the Greater Reykjavík Area, and the 2017 meeting was in Húsavík.

In January, a meeting was held in co-operation with the Keflavík Airport Development Association, Kadeco, under the title “Keflavík Airport – Opportunities for economic development”. The topic under discussion

## THE COMMUNITY

## VARIOUS COMMUNICATIONS WITH STAKEHOLDERS

Social responsibility	Environment	Future development and work	Tourism	Human resources, marketing and services
Talk on Isavia's work in social responsibility, in connection with the conference What Works: The International Summit to Advance Social Progress in Reykjavík	Talk on Isavia's work on making Keflavík Airport carbon neutral at the North America / Europe Airport Best Practices Conference in Reykjavík	Talk on drawing up a development plan for Keflavík Airport and communications with stakeholders at the Passenger Terminal Conference in Amsterdam	Talk entitled "Why Iceland? A competitive airport" at the Islandsbanki breakfast meeting in Reykjavík	Talk on human resources matters at the ACI HR & Leadership Forum in Tel Aviv
Talk on Isavia's social responsibility objectives at the Harvest Festival of Responsible Tourism run by Festa (Centre for Corporate Social Responsibility) and Tourism Iceland	Talk on Isavia's work on making Keflavík Airport carbon neutral for a Joint Nordic Aviation Environment Committee	Talk on information technology and technical optimisation at Keflavík Airport at the SITA ICT Forum	Panel discussions on tourism in Iceland at a conference organised by Landsbanki	Talk on equal pay certification at the ACI HR & Leadership Forum in London
Talk on Isavia's work on social responsibility at the meeting Invest in the Future organised by SA Business Iceland in Reykjavík	Talk on Isavia's work with Green Steps at a Green Steps breakfast meeting	Talk on Isavia's implementation of BIM at the Design Management Forum in Sweden	Breakfast meetings on passenger forecasts by Isavia in Reykjavík	Talk on internal marketing at the ACI Digital Communication Forum in Naples
Talk on corporate social responsibility at the Annual General Meeting of Tourism Iceland	Short talks on Isavia environmental issues at the Association of Icelandic Environmentalists	Talk at the BIM conference: Optimising infrastructure construction in Reykjavík	Facilitator: Member of staff from the Startup Tourism project	Talk to the members of Meet in Reykjavík on loyalty services available at Keflavík Airport
				Talk on recruitment in times of high growth at the Reykjanesbær Management Day





at the meeting was the opportunities available for economic development in the fisheries sector in the neighbourhood of the airport. Interesting talks were given at the meeting and attendance was good.

An open residents’ meeting was held for the first time in May for the residents living closest to the airport to inform them of the effects of runway construction on air traffic and environmental noise. Also presented were the results of new noise measurements in the area together with a new noise measurement system that was adopted during the year. The plan is to hold a similar meeting on a yearly basis.

There has been communication at meetings with 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. In July, the Super Break travel agency announced plans to launch a direct flight between Cardiff (UK) and Akureyri in the beginning of 2018, with the first passengers expected to land in January. This is the first time there has been a direct flight from the UK to Akureyri.

**Co-operation with the tourism sector**  
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. In 2017, the Iceland Ocean Cluster held, for the third time in a row, the conference Iceland, the Transportation Nation in co-operation with a group of transport companies within the Cluster and the Confederation of Icelandic Employers (SA). The main point of discussion at the conference was how Iceland can strengthen itself as a hub for international transport and at the same time, promote increased collaboration between North Atlantic nations.

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. At this year’s conference, Director of the Air Navigation Services

Division, Ásgeir Pálsson, gave a talk, together with representative of the Icelandic Met Office and Icelandair, on the impact volcanic eruptions in the Arctic region may have on air traffic.

Isavia also regularly holds open meetings where entities within the tourism sector, and others are informed of the company’s plans at Keflavík Airport, such as regarding construction and traffic forecasts. The annual breakfast meeting in which the forecast for the passenger throughput at Keflavík Airport was presented was held in November. Isavia employees have also given talks at numerous open meetings that have been held by other entities.

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.

**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 the company’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. These drills are usually attended by over 1,000 people from all response units. 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. 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.



In 2017, air accident drills were held at Akureyri Airport, Vestmannaeyjar Airport and Ísafjörður Airport. These drills went well and attendance was good.

**Grants to ICE-SAR and the Icelandic Red Cross**  
The Isavia and Landsbjörg Grant Fund has been active since 2012 and has, up to 2017, allocated close to ISK 40 million to search and rescue teams for the purchase of nine group accident carts. At the beginning of 2018, a three-year agreement was signed with the Red Cross for the purchase of seven group assistance carts over the period, for a total of approximately ISK 14 million.

The main purpose of these grant funds is to purchase group accident and assistance carts with all principal equipment needed, such as in the event of a coach accident or when it is necessary to house a large number of people in help centres. The carts have been delivered to ICE-SAR teams and Red Cross divisions throughout Iceland.

Co-operation between Isavia, the Red Cross and ICE-SAR has been successful, and the volunteers from these organisations are an important parts of the airports’ response systems.

In 2017, the Kári Rescue Team in Öræfi, the Stefán Rescue Team in Mývatnssveit and the Ísafjörður Rescue Team all received equipment trailers for group accidents.

In 2018, it is planned to deliver three more equipment trailers for group accidents to ICE-SAR and two equipment trailers for group care to the Red Cross.

For more information, see [isavia.is/um-isavia/styrkveitingar](https://www.isavia.is/um-isavia/styrkveitingar).

**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 found at: [isavia.is/um-isavia/styrkveitingar](https://www.isavia.is/um-isavia/styrkveitingar).

**Isavia’s University Grants**  
Grants have been allocated to students who are taking their master’s degrees at Reykjavik University and the University of Iceland. The company allocated more than ISK 9 million to seven master’s degree research projects in 2017. For further information, see <https://www.isavia.is/um-isavia/styrkveitingar>.

**Startup Tourism**  
Ever since its establishment, Isavia has been one of the sponsors of the Startup Tourism project, which gives start-up companies in the tourism sector a chance to realise their business ideas. Ten teams were selected to participate in a business accelerator which began in February and lasted for ten weeks. Team leaders were provided with a training course and guidance by various experts to further develop their business ideas. The teams presented the results to investors and key entities within the tourism sector in April.

THE AUTHORITIES

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 Transport and Local Government plays a two-fold role in connection with operations of Isavia: on the one hand as the responsible 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 and other aspects under the responsibility of the authorities. The company has a seat on three committees and boards operated by the Ministry: the Professional Board for Aviation Issues, the Flugvirkarráð Council and the Transport Council (observer). The company has regular professional communications with the Ministry of Transport and Local Government 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 first is the “Joint Finance” agreement, which 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 second is an agreement with the Danish government for Iceland to manage air-traffic control in the upper section of the airspace above Greenland. Isavia has also entered into an agreements with the Greenlandic airport company Mittarfeqarfiit for Isavia’s Air Navigation Services Division to handle air traffic control services at the airport at and around Kangerlussuaq/Sönderström.

Meetings are regularly held with the Ministry of Industries and Innovation in connection with flight connections and tourism issues. 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. In January, Isavia representatives took part in a brainstorming session organised by the Ministry of Foreign Affairs regarding Iceland’s presidency of the Arctic Council in 2019–21.

Isavia has a great deal of interaction with many public bodies due to the diversity of the company’s activities. The closest 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 note 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 that are within or in close collaboration with the company, such as the Police Commissioner, 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 and fire brigades.

Isavia is also monitored by and collaborates with foreign entities. The most noteworthy of these are the European Aviation Safety Agency (EASA), which guarantees harmonised safety requirements in Europe, and 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 also monitors the performance of the abovementioned “Joint Finance” agreement. Isavia also co-operates with the EASA as part of co-operation for Borealis. Due to the company’s operations in Greenland and the Faroe Islands, Isavia is monitored by the Trafik- og byggestyrelsen (Transport, Construction and Housing Authority) in Denmark, and for collaboration on flight communications services in the North Atlantic, there is close communication with the Irish Aviation Authorities.



Social responsibility milestones

SUPPLIERS

Since Isavia is owned by the Icelandic state, the company is subject to the Act on Public Procurement. The company’s main purchases may be divided between building construction, service purchases and operating purchases. From 2017, Isavia was able to use the provisions of Regulation No 340/2017 on procurement by parties operating in the water, energy, transportation and postal service sectors. Last year saw organisational changes involving the creation of a centralised purchasing department. The role of this department is to handle and support the company’s purchasing in accordance with the principles of public procurement. There has been particular focus on electronic communication with a view to maintaining and improving traceability in procurement.

The proportion of Icelandic suppliers is 88%, and that of overseas suppliers is 12%, although there are no records detailing which of these are based outside the European Economic Area.

RULINGS AND COURT JUDGMENTS INVOLVING ISAVIA OHF. IN 2017

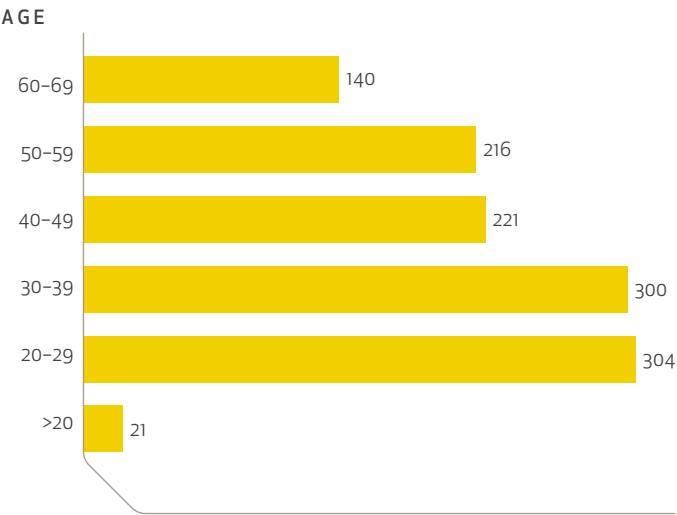
No court judgments or rulings have been made where the company was considered to have violated acts of law or rules in 2017. There is one court case ongoing at a District court, following a referral from the Supreme Court.

There were five complaints regarding invitations to tender. In all cases, the Public Procurement Complaints Commission ruled in favour of the company. One complaint was filed regarding a dispute over data submission. In this case, there was no ruling in favour of the company’s position that the data in question were sensitive and should not be submitted.

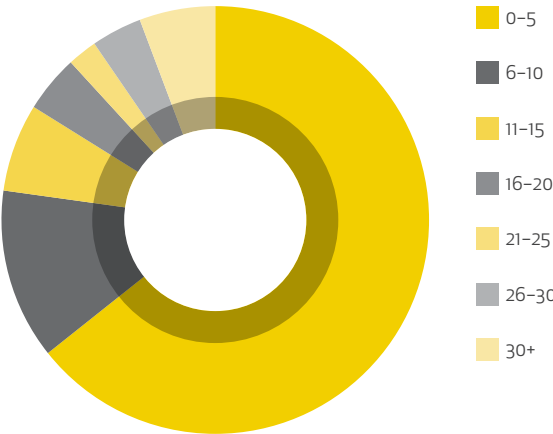


# HUMAN RESOURCES

THE PARENT COMPANY ISAVIA EMPLOYS A DIVERSE GROUP OF PEOPLE AT VARIOUS WORKPLACES ACROSS THE COUNTRY. AT THE END OF 2017, THERE WERE 1,202 EMPLOYEES, OF WHICH A THIRD WERE WOMEN. AT THE SAME TIME, THERE WERE 313 STAFF WORKING FOR SUBSIDIARIES - 221 AT THE DUTY FREE STORE AND 46 AT TERN SYSTEMS.



Employee age range



Years worked at Isavia

The average age of employees is 40.6 years, and the average length of service is 7.32 years. Staff turnover in 2017 was 11.28%. This rate varies across jobs and professional fields. The workforce is growing rapidly and 504 employees were recruited in the course of 2017, of which 300 for summer work.

An extensive campaign was launched to attract new employees and present the various jobs available with the company. This included presentation by company workers themselves, in seven videos produced for this purpose. A Facebook page called "Störf hjá Isavia" (Jobs at Isavia) was set up to advertise all available jobs with the company. Presentation material about jobs with the company was also made available in upper secondary schools and universities.

There is great focus on properly welcoming new colleagues. All receive an electronic presentation, which they are expected to view before beginning work. A member of the management team meets each new recruit on their first day, welcomes them, presents the workplace and colleagues and goes over the main points that new employees should know. All new temporary staff received a gift and a presentation booklet setting out the main points of the employee handbook.

### Learning

Educational courses, refresher courses and regular training are part and parcel of everyday working life. Organised training and learning takes place all year round. The company organises 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. This educational work can be divided into two categories: specialised learning and general learning.



TRAINING HOURS FOR EACH EMPLOYEE

The company is unique in that the majority of its employees receive basic training within 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.

Isavia's teaching methods are under continuous development, and IT is used extensively. In recent years, the trend has increasingly been to offer a blend of study techniques, with coursework provided via a learning site and practical training at the place of work.

2017 saw a total of 24,225 hours of learning activities, corresponding to 20 hours per employee over the year. Some 90% of these learning hours involved basic training, refresher courses and vocational and professional training required by staff to retain their certification and skills in jobs such as air navigation, airport security services and ground handling services.

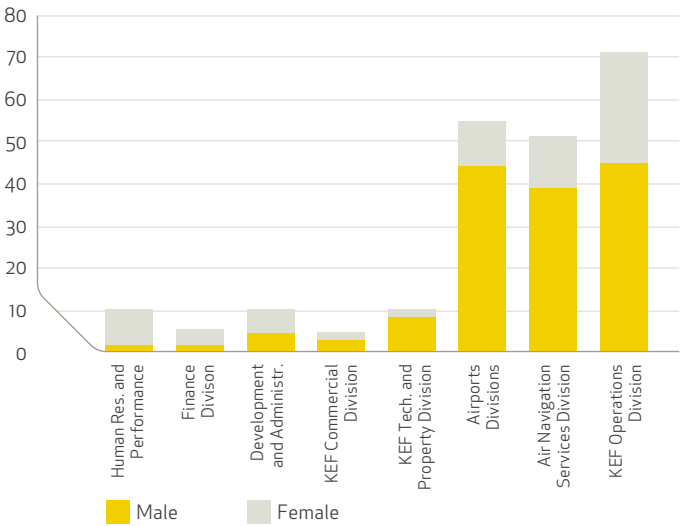
### Labour market

Isavia operates in the general labour market and follows general collective wage agreements which the Confederation of Icelandic Employers has 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) (air traffic controllers).

Written contracts of employment are made with all employees specifying their wages, working arrangement, rights and obligations. All employees are made aware of the company's Code of Ethics when signing their recruitment contract.

Absence rights are linked to collective wage agreement. Absence due to illness was 5.6% of all man-hours in 2017. Occupational illnesses, 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 eighteen and pays all public charges and does not employ persons to do undeclared work.



Number of training hours by gender and field of work

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.

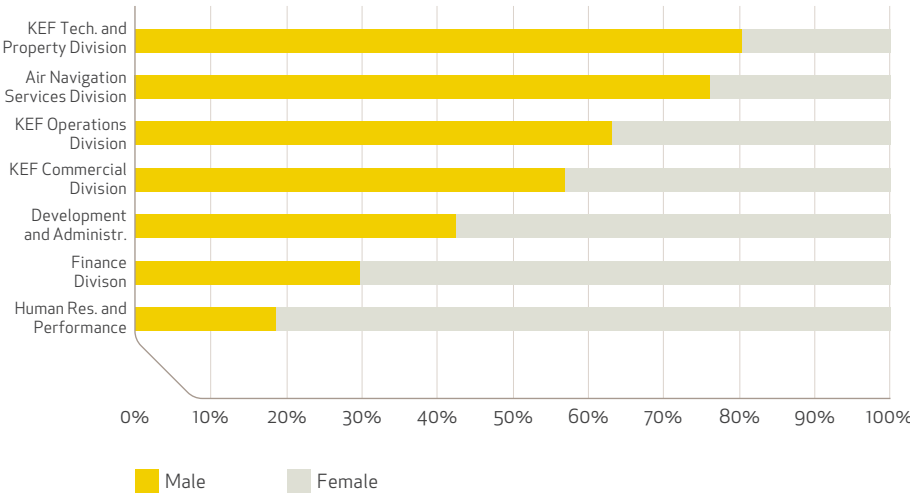
Social environment

The company’s Code of Ethics states that everybody’s work deserves respect and that neither colleagues nor customers should suffer any discrimination on the basis of sex, religion, beliefs, ethnic origin, race, colour, financial situation, origin, disability, age or on any other grounds.

There is an action plan in place for dealing with bullying, sexual- or gender-based harassment and violence in the workplace. This action plan is accessible to all employees on the company intranet and is presented to all new employees. Last year, managers received specific training on social environment and guidance on how to respond on the basis of the plan.

	Male	Female	Total	Average age
Manag. Dir. and Deputy Manag. Dir.	8	3	11	50
Department managers	16	11	27	49
Other managers	50	5	55	50
<b>Total</b>	<b>74</b>	<b>19</b>	<b>93</b>	

Gender split among managers



Gender split by field of work

Four formal reports of violations of equal rights, bullying or harassment were submitted in 2017. These were processed according to company procedure and a solution was found in all cases.

Equal rights

The object of Isavia’s equal rights programme is to ensure full equality between men and women in the workplace, with the goal of making full use of staff abilities, energy and knowledge, free of gender-based discrimination. All positions are accessible to both genders, consideration is taken of family life / work balance, bullying and sexual harassment are prevented, gender ratios are balanced in management positions and equal rights are ensured in determining wages. Isavia job advertisements encourage applicants of both genders for available positions.

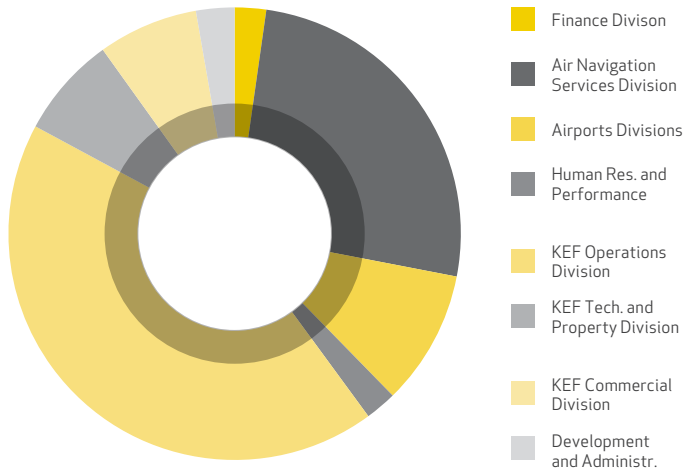
Isavia’s equal rights programme is accessible to all employees on the company intranet and is presented to all new employees. The equal opportunities representative ensures that the company’s goals and schedules in equal opportunities are followed and provides advice to management and employees. The findings 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 2017, the third year in a row. The certification confirms that there is equal pay at Isavia, with less than 3.5% difference between genders. Isavia has placed great importance on the equal pay of men and women, and this has been very successful.

All employees are, by law, entitled to payments from the Parental Leave Fund. A total of 69 employees took parental leave in 2017, 24 women and 45 men. All employees who took parental leave in 2017 returned to their job at the end of their parental leave period.

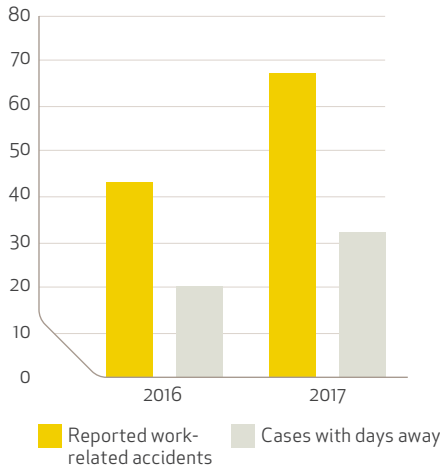
Equal pay certification

Isavia is currently working on adopting an equal pay standard and is aiming for wage equality certification in autumn 2018. The objective of adopting the equal pay system by means of an equal pay standard (IST 85:2012) is to maintain wage equality and fulfil the employer obligations laid down in Chapter III of Act No 10/2008 on the equal status and equal rights of men and women.



Employee split by field of work

The standard deals with employer obligations to pay men and women equal wages and ensure they receive the same terms for doing the same and equally valuable work. In August 2017, a project manager was recruited to handle planning and adoption of the standard, and external consultants are also working on the project. In November 2017, a steering group was set up to participate actively in the project, which is directed by the Human Resources Department. One of the tasks of the steering group is to keep senior management informed of the progress of implementation. It is expected that adoption of the equal pay standard will be completed by the start of April 2018, the company will be ready for pre-



Number of reported work-related accidents

testing by mid-summer and certification will happen in autumn 2018.

Health and working environment

We focus on raising employee awareness of the importance of having a healthy lifestyle and thus show that the company cares for both the health and safety of its employees. The company’s aim is to support the psychological and physical well-being of its staff, provide them with a good working environment and meet their psychological,

social and physical needs in the workplace. The company gives its staff financial support to take physical exercise. Employees can also apply to the trade union for financial support.

Employees can contact the service desk of Vinnuvernd (Occupational Health Service) and obtain advice on their own illness or that of family members. In addition, Vinnuvernd nurses hold regular consultations at the company’s largest operating units.

There are systematic efforts to improve the staff working environment. A new service building has been brought online at Keflavik Airport, new work stations have been set up in the flight control hall and the flight communication centre and various improvements have been made to the Leifur Eiríksson Terminal and the control tower at Reykjavik Airport. Continuous improvements are being made to technical equipment, e.g. the introduction of new weapons-detection machines at Keflavík Airport.

Occupational health

Particular emphasis is placed on staff safety in the workplace. All accidents are recorded. The company’s occupational health representative is responsible for describing the circumstances of each case and proposing improvements to facilities or procedures to prevent reoccurrences. Accidents are recorded electronically, and particular efforts have been made to raise awareness of the concept of “near-miss accidents”, by means of a special button in the staff website (Flugan) and special information cards displayed everywhere. The Safety Committee, made up of staff and company representatives, discuss all cases relating to the occupational health of Isavia staff.

A risk assessment has also been carried out with an external consultant regarding the new work stations in service facilities at Keflavík Airport and in the Leifur Eiríksson Terminal.

Reports of work-related accidents have increased year-on-year, in conjunction with the wider scope of operations, an increase in the number of employees and improved reporting procedures. Last year, 67 work accidents were reported, of which 32 led to the staff member in question being absent from work. In light of this, one of the objectives that Isavia has set itself for 2018 is for “no accidents to occur at the workplace requiring staff to be absent from work”, and there will be systematic efforts to make improvements to achieve this.

End of employment

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 nearing their retirement age, and their spouses are also invited. The course covers useful information and deals with the changes that end of employment will bring. The course is also an opportunity for an enjoyable gathering with colleagues, spouses/ families and company representatives. Eleven employees participated in such a course in 2017.



# AN EVENTFUL YEAR



## EXTENSIVE ASPHALT PAVING COMPLETED

The asphalt paving of the runways at Keflavík Airport was completed in September, and the ribbon was cut on the opening of the eastwest runway. Work began during the summer in 2016. The overall project was to pave both runways, renew all electrical equipment and change the runway lights to energy saving diode lights. The extent of this work was the equivalent of all asphalt paving in the Greater Reykjavik Area in 2017.



## GRANTS FROM ISAVIA'S COMMUNITY FUND

26 project received grants from Isavia's Community Fund last year. Grants from the Fund are awarded twice a year. The selection process for grant recipient focuses on environmental issues, humanitarian issues, prevention, flight-related issues, arts, culture and educational issues, and a large number of applications were received.

## ISAVIA BREAKFAST MEETING ON PASSENGER NUMBER FORECASTS FOR 2018

The annual Isavia breakfast meeting was held at the Hilton Nordica in November. At the meeting, Isavia presented a new forecast for passenger numbers for Keflavík Airport in 2018. Dr Huginn Freyr Þorsteinsson discussed the impact on Iceland of Keflavík Airport being an exchange point between continents. Ásta Kristín Sigurðardóttir, Managing Director of Icelandic Tourism, introduced Startup Tourism's business accelerator, which has helped a number of tourism companies to establish themselves.



## TEMPORARY SHOPPING AND FOOD SPACE AT KEFLAVÍK AIRPORT

In 2017, Isavia innovated at Keflavík Airport by offering a temporary shopping and food space in the Leifur Eiríksson Terminal. The restaurant Sbarro, the outlet Epal and the Ísey skyr bar were selected to take part in the project.



## ISAVIA BREAKFAST MEETING ON SUMMER 2017 TOURISM

Last spring, Isavia held a breakfast meeting on the upcoming summer tourism season at the Hilton Reykjavik Nordica. The meeting looked at Isavia's forecast for passenger numbers and how accurate it had been so far that year, the expected number of tourists over the summer, the measures Isavia had taken to handle the large numbers of passenger using the airport and the results achieved in the airport's service survey despite the huge increase in passenger numbers. Director-General of the Icelandic Tourist Board, Ólöf Ýrr Atladóttir, also went over the projects that the Icelandic Tourist Board has undertaken to improve the handling of tourists and how money from the Tourism Site Development Fund had been used.



## ISAVIA CHRISTMAS GREETING

Isavia involved its staff in the making of the Isavia Christmas greeting which was published in the media in the run-up to Christmas 2017. Over 200 employees from all over the company took part.



# ISAVIA AND THE ENVIRONMENT

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The company’s environment policy can be found on the website, together with detailed information on Isavia’s work in environmental issues.



# ENVIRONMENTAL ISSUES IN FULL FLIGHT

In December, Isavia received the Incentive Award for Climate Matters from the City of Reykjavik and Festa.

Keflavik Airport renewed Step 1 of the Airport Carbon Accreditation system run by Airports Council International. Preparation has begun for Step 2, which it is hoped will be achieved in the course of 2018. Two of the objectives set by Isavia in relation to Responsible Tourism deal with two important factors in greenhouse gas emissions in the company's operations – the use of fossil fuels and the sorting of waste. Work has also been ongoing on an environmental action plan up to 2030.

As previously, Isavia is taking part in the Green Steps project, and several workplaces have made progress in the course of the year. For instance, Iceland Radio has completed four steps, Keflavik Airport has completed the first step and the airports at Egilsstaðir and Akureyri have completed the second step. The project is a real driver for raising employee awareness of the environment.



## USE OF MATERIALS

Isavia's operations are in many respects energy intensive, both as regards use of electricity and fuel.

The weightiest environmental factor in the company's operations is the use of fossil fuels. Use is at its highest during the winter months when runways and aprons need to be cleared almost 24

hours a day. It can prove difficult to manage use, but efforts are being made to reduce it as much as possible without compromising operations or safety. Electric cars have been purchased for use airside at Keflavik Airport, employees with a commercial driving licence take a course in eco-driving and even more measures linked to this issue are being lined up for the coming years.

Fuel use per passenger was just less than one litre last year – a decrease of just less 10% from 2016. Total fuel use was, however, higher in 2017 than in previous years.



LESS FUEL USAGE  
PER PASSENGER SINCE 2015

	2015	2016	2017
Petrol	45,665 l	47,131 l	40,769
Diesel	751,722 l	714,574 l	819,696
Aircraft fuel	-	-	62,468
Litres per passenger	1.48 l	1.06 l	0.96 l

	2016	2017
Clearway SF3 in tonnes	27	58
Clearway F1 in litres	54,300	79,959

ENERGY

Total electricity used last year was 29,421,110 kilowatt-hours, the equivalent of just more than 5,800 homes. The amount of hot water used by Isavia corresponded to the annual use of some 5,780 people, i.e. 894,979 cubic metres.

As indicated above, fuel consumption is the weightiest environmental factor in Isavia’s operations. The greatest proportion can be traced to the servicing and maintenance of airport operating areas. Services are very dependent on the weather. This means that major fluctuations can occur from year to year – regardless of passenger numbers – particularly if winter services using the most energy-intensive equipment are required for many days in the year.

Last year, new equipment was installed to start up aircraft engines using electricity instead of fossil fuels.

Isavia uses both sand and de-icing material on runways and other areas of its airports. Sand is in use at domestic airports and de-icing material at Keflavík Airport, while 5,000 litres of de-icing fluid is used at Akureyri Airport. Isavia uses Clearway F1 de-icing fluid and Clearway SF3 de-icing granules. The former is made from odium formate and the latter from potassium formate, and both carry the Blue Angel (Blauer Engel) environmental label. They are biodegradable and have a low toxicity effect on water. They meet all mandatory environmental and ecological requirements.

WATER

Isavia obtains water from utilities operated at each site and has not reused or recycled water from airport areas.

The company has begun groundwater research at Keflavík Airport, supervised by Verkís Consulting Engineers. Last year, samples were taken twice – in April and in September. Groundwater samples from boreholes show traces of chemical use in the airport areas; this indicates that some pollution is occurring but not to any great degree. It is thought that most of the pollutants detected in the readings can be traced back to the operations of the US Army at Keflavík Airport years ago. In light of these findings, further measurements will be taken, including of groundwater flow.

Further details on water and sewage matters can be found on the Isavia website.



WASTE

	kg
Waste material recycled	84
Waste material disposed of	45,337
Electronic equipment for recycling	445
For recycling	420,794
For landfill/disposal	1,235,220
<b>Total</b>	<b>1,701,880</b>
Recycling share	25%

One of Isavia’s objectives as regards Responsible Tourism and the Climate Agreement is to reduce the amount of unsorted waste from its operations. Great steps have been taken in 2017 to increase sorting. Waste sorting at Isavia varies considerably between the company’s operating locations. The most common is the separation of paper, deposit beverage containers, plastic and general waste. Great efforts were made in the autumn to bring about more sorting at Keflavík Airport, and December saw the start of sorting for organic waste by operators landside. As 2018 progresses, more operators will increase their waste sorting and passengers will be able to sort paper and plastic, as well as the deposit containers they can currently sort.

Several workplaces have long been sorting waste thoroughly, e.g. Akureyri Airport and Iceland Radio. Iceland Radio has gone even further and uses a large proportion of the organic waste produced either for compost or to feed hens kept by the staff at the workplace. This is a special and fun way of using food waste and gives staff the pleasure of looking after and following the progress of the hens – not to mention the possibility of daily fresh eggs. Staff will be more active as regards this kind of incentive measures, and such measures could be looked into at other workplaces. The total recycling rate increased from 14% in 2016 to 25% in 2017. The rate of sorted waste per passenger also increased from 14% in 2016 to 20% in 2017.

More information on waste sorting at Isavia workplaces can be found on the company website.

	2016		2017	
	kg	%	kg	%
Sorted per passenger	0.03	14%	0.04	20%
Unsorted per passenger	0.16	86%	0.16	80%
<b>Total per passenger</b>	<b>0.19</b>		<b>0.20</b>	



NOISE

Last year, three fixed acoustic noise monitors were installed at selected locations in the vicinity of Keflavík Airport. There is also a portable meter which allows Isavia to respond to specific complaints with more accurate measurements. As well as these acoustic noise monitors, a system was set up to allow residents and other stakeholders to monitor which aircraft are generating noise and report any disturbances. This gives a better picture of where and which flights are causing the most disturbance, to enable an appropriate response. Last year, eleven disturbance reports were made in this way at Keflavík Airport and four at Reykjavik Airport.

For more information, see the Isavia website. The website gives a link to the noise monitoring interface and a button to use to report disturbances caused by flights.

AIR QUALITY

The direct emission of greenhouse gasses by Isavia can be traced to fuel use. In 2017, the amount of greenhouse gas emissions caused by burning fossil fuels was 2,458 t CO<sub>2</sub>e. The company’s best opportunity to reduce emissions is to reduce fossil-fuel consumption. This is one of Isavia’s objectives for 2018. In previous years, higher average emission values for the burning of fossil fuels were used to calculate greenhouse gas emissions than are used today. The values used today are those given in the calculator linked to the City of Reykjavik and Festa Climate Agreement. The calculated values for previous years on the basis of those values are given here.

Direct greenhouse gas emissions from the burning of fossil fuels per passenger in 2017 totalled 0.257 kg, a reduction of 9% from 2016 to 2017.

There was an increase in direct GHG from fuel use from 2016 to 2017, due to the increase consumption of fuel. Despite this, emission per passenger fell (as described here), and the same is true for fuel consumption per passenger.

The company has set itself the objective, by 2020, of reducing greenhouse gas emission by around 10% per passenger, based on the figures from 2015. In 2015, emissions stood at 0.6 kg CO<sub>2</sub>e, and in 2016, 0.45 kg CO<sub>2</sub>e. In 2017, greenhouse gas emissions totalled 0.37 kg CO<sub>2</sub>e, i.e. a 38% reduction as compared to 2015. This means that Isavia has already achieved its 2030 objective of reducing greenhouse gas emissions per passenger by 30% as compared to 2015.

Account was taken of the emissions of CO<sub>2</sub> from the use of fossil fuels, production of electricity and sending waste to landfills.

The energy used by Isavia in the form of electricity or heat comes from district heating plants or hydropower plants. In both cases, the energy in question is from renewable sources which generate very low 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. According to the National Energy Authority, the average emission level for energy generation is 11.8 g CO<sub>2</sub>e per kilowatt-hour. Indirect emissions from electricity use at Isavia in 2017



totalled 347 tonnes of CO<sub>2</sub>. The landfilling of waste and staff travel can also be considered indirect sources of greenhouse gas emissions from the company’s operations. In 2017, 1,235,220 kg of waste went for landfill or disposal. This figure includes raw waste, screenings, soil and concrete debris. Greenhouse gas emissions from landfilling Isavia waste in 2017 totalled 717 tonnes, a figure which includes emissions from organic waste for composting. Emissions from staff flights abroad totalled 286 t CO<sub>2</sub>e.

There are next to no emissions of ozone-depleting substances emitted as part of the operations of the company. Nitrogen dioxide levels are monitored by means of an air-quality meter located over Eyjabyggð in Reykjanesbær. There are also plans to measure sulphur dioxide, nitrogen dioxide and particulate matter airside at Keflavik Airport.

More information on air quality can be found on the Isavia website.

2015		
No of passengers	5,548,127	
Total CO <sub>2</sub> emissions from fuel	2,187,120	kg
CO <sub>2</sub> emissions per passenger	0.394	kg
2016		
No of passengers	7,618,793	
Total CO <sub>2</sub> emissions from fuel	2,146,070	kg
CO <sub>2</sub> emissions per passenger	0.282	kg
2017		
No of passengers	9,577,927	
Total CO <sub>2</sub> emissions from fuel	2,458,376	kg
CO <sub>2</sub> emissions per passenger	0.257	kg

ECOSYSTEM

Isavia airport zones are as diverse as regards ecosystems as they are numerous. For years, Isavia has been closely monitoring fauna airside at its airports and has analysed adjacent airport environments in terms of the presence of animals and birds. The appearance of wild animals varies greatly from place to place as vegetation and food supply differs. Major efforts are made at airports to reduce the likelihood of collisions between aircraft and animals, for instance, by deterring them and managing habitats.

Isavia registers all collisions between birds and wild animals with aircraft at airports. In 2017, there were fourteen reported cases of birdstrike at Keflavík Airport and 22 at domestic airports.

More information on ecosystems within airport zones and on registration of wild animals is available on the Isavia website.

Last year, there was one accident at Keflavík Airport, in which 200 litres of oil leaked out, necessitating the replacement of 1.18 tonnes of soil.

No rulings have been made where the company was considered to have violated environment legislation.

Total no of flight movements	194,415
No of birdstrikes	36
No of birdstrikes per 10,000 flight movements	1.85



ENVIRONMENTAL  
NEWS



VEHICLE ELECTRIFICATION  
HAS BEGUN

In March, Isavia took delivery of three new Kia Soul EV electric cars from the Askja car dealership. The cars are very environmentally friendly and economic, as they are pure electric cars. They will therefore help towards reducing the company's carbon footprint.



INCENTIVE RECOGNITION  
IN CLIMATE ISSUES

Last year, Isavia was awarded an incentive recognition in climate issues from the City of Reykjavik and Festa (Centre for Corporate Social Responsibility). These awards were given out for the first time in 2017. The City of Reykjavik and Festa consider that Isavia has set itself ambitious objectives as regards climate issues.



RESPONSIBLE TOURISM

In January, together with 300 other tourism companies, Isavia signed a declaration on responsible tourism. This is an incentive project aimed at supporting environmental protection and social responsibility.



# ECONOMY AND FINANCIALS

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2017

Following approval by the Isavia Board of Directors to make the Keflavík Airport Developmental Plan the basis for all development at the airport, it is clear that a great amount of work will be need to be undertaken over the coming years, requiring a great deal of funding. Isavia’s financial position is more than healthy enough for the development that lies ahead. The company’s access to credit has been good, and as things stand, there is no real indication that this might change. That said, it is important – given the scope – to approach all further development with a certain amount of risk awareness, as the planned investment runs to tens of millions of ISK over the coming years.

As an example of the strength of the company’s financial position, Isavia’s equity ratio has remained almost constant since the end of 2013, despite investment – funded from operation or by loans – of more than ISK 43 billion since then.



# SCOPE OF OPERATIONS

TWO FACTORS HAVE THE GREATEST IMPACT ON THE SCOPE OF ISAVIA’S OPERATIONS: THE NUMBER OF FLIGHT MOVEMENTS AND THE NUMBER OF PASSENGERS.

As a whole, the company’s operations have widened in scope as compared to last year. In 2017, passenger numbers at domestic airports increased by 3%; at Keflavík Airport, passenger numbers increased by 28%; and traffic in Icelandic airspace increased by 12%.

Air Iceland Connect flies from Reykjavik to several locations in Greenland, and Atlantic Airways flies to the Faroe Islands. In addition, the Icelandic Flight Academy (Flugskóli Íslands) and Flugfélagið Geirfugl have facilities at Reykjavik Airport. BIRK Flight Services and Air Iceland Connect are responsible for ground handling services at airports.

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 sight-seeing flights from Akureyri and Reykjavik. Air Iceland Connect has been flying between Akureyri and Keflavík Airport in connection with the Icelandair’s main destinations in Europe and North America since 2017. In February 2018, the company announced that it intended to drop this route as of summer 2018. 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.

Air Iceland Connect deals with ground handling services at Egilsstaðir Airport.

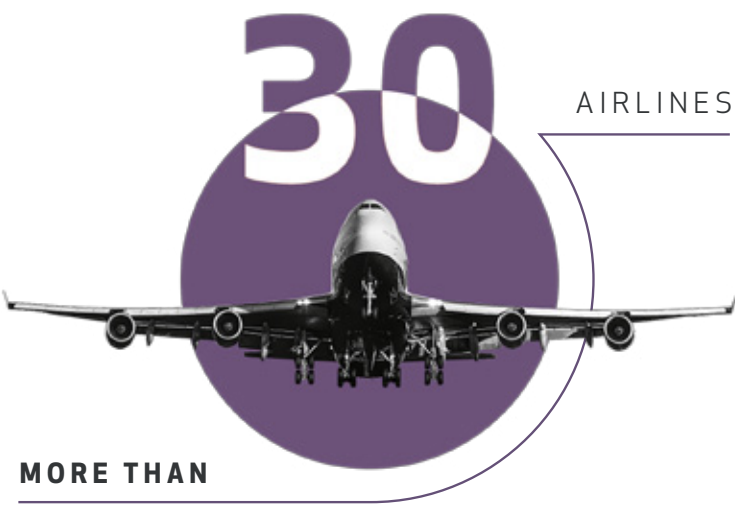
**Scope of flight navigation operations**  
The largest customers of Isavia’s flight navigation services are Icelandair, WOW air, United Airlines, Emirates, Delta, SAS, Lufthansa, British Airways, Air Canada and Qatar. These airlines fly the greatest number of kilometres within the Icelandic flight traffic control area. Icelandic airlines are the biggest users of flight navigation services at Keflavík Airport.

**Scope of operations at Keflavík Airport**  
The number of users of Keflavík Airport is constantly rising. Over summer 2017, 27 airlines flew from the airport to more than ninety destinations. Twelve airlines flew to and from Iceland all year round: Icelandair, WOW air, easyJet, Wizz Air, British Airways, Norwegian, SAS, Air Iceland Connect, Delta, Lufthansa, Finnair and Primera.

Four handling agents operate at Keflavík Airport: IGS, Airport Associates, ACE Handling and South Air.

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. In addition, Isavia has marketed time slots outside peak hours each day, with the aim of making better use of the airport’s facilities. There was a sharp increase in use of these slots in 2017.



**Scope of airport operations**  
Three aircraft operators ran scheduled flights within Iceland, i.e. Flugfélag Íslands, Flugfélagið Ernir and Norlandair. Other aircraft operators who regularly used Isavia services were Mýflug, Atlantsflug and Norðurflug. Vesturflug/Blue West and Helo operate a helicopter service at the company’s airports.

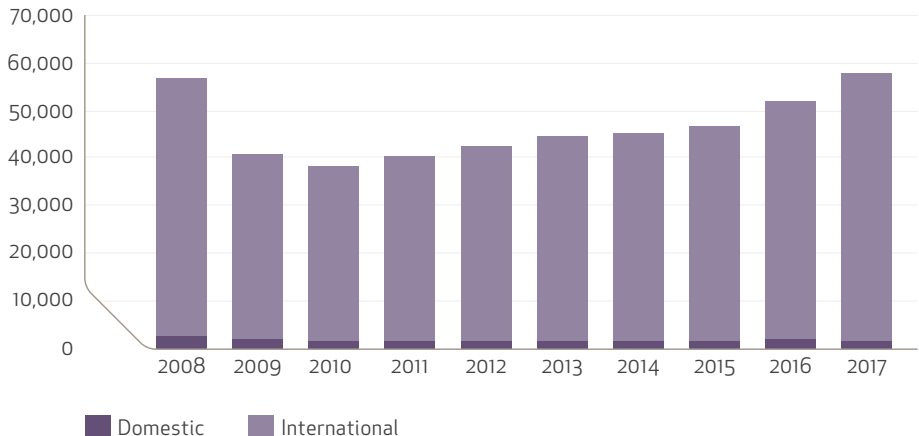
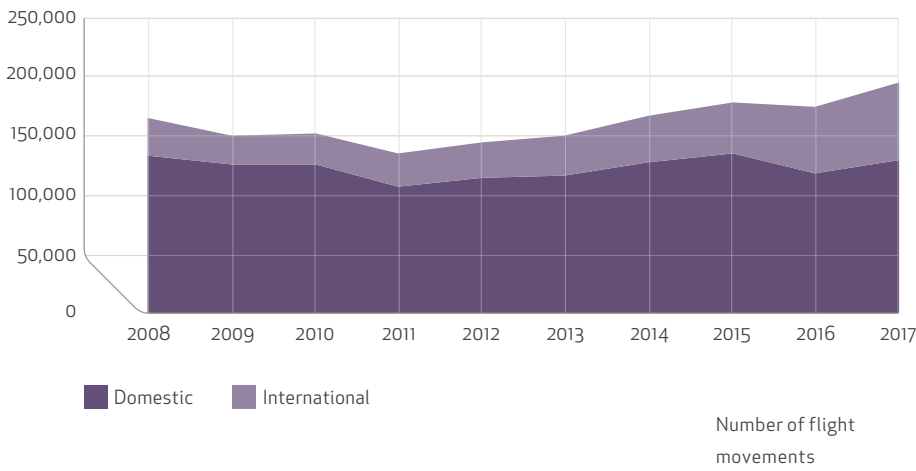




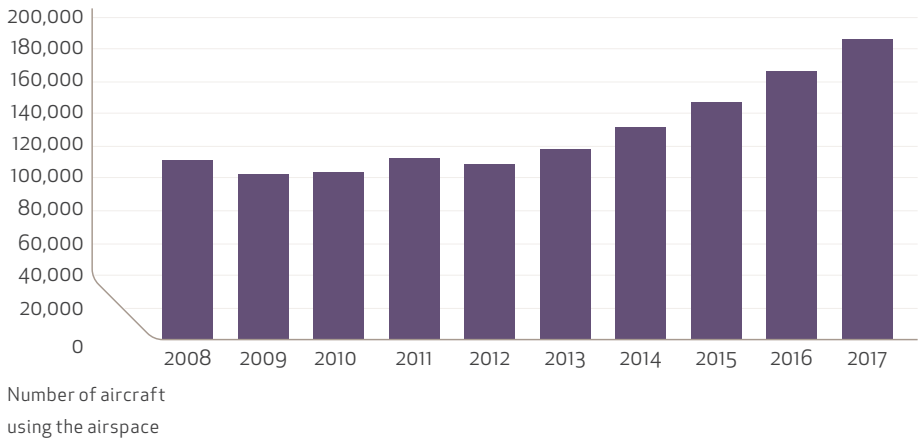
FLIGHT  
STATISTICS

Passenger movements through Isavia airports totalled 9.6 million in 2017, an increase of 25.7% from 2016. The number of international passengers increased from almost 6.9 million to more than 8.8 million, i.e. an increase of some 28.2% year-on-year. The greatest increase (28.3%) was at Keflavík Airport, while international passenger at other airports increased by just less than 5%. The number of domestic passengers increased during the same period from just more than 749,000 to just less than 772,000, i.e. an increase of some 3%, as indicated above.

There were just more than 196,000 flight movements at Isavia airports in 2017. This is an increase of just more than 12% from the previous year. International flight movements at Icelandic scheduled-flight airports totalled over 65,000, an increase of some 20%. The increase was by far the greatest at Akureyri (just less than 39%), with an increase of more than 19% at Keflavík Airport. Flight movements within Iceland on scheduled-



Number of freight transportations



Number of aircraft using the airspace

flight airports totalled more than 129,000, a increase of 9% year-on-year, after having fallen significantly the previous year due to the use of larger aircraft on domestic routes.

In total, almost 60,000 tonnes of goods were transported through the company's airports in 2017, an increase of more than 11% from the previous year. Freight transportation between countries was almost 1,000 tonnes in 2016, an increase of more than 11% year-on-year. In 2017, domestic freight transportation totalled just more than 1,300 tonnes – a considerable fall from 2016, when the figure was almost 1,800 tonnes.

Over 185,000 aircraft passed through Icelandic airspace in 2017, an increase of around 11.8% from 2016. A total of almost 253 million kilometres were flown in the Icelandic air traffic control area in 2017 – the equivalent of 300 return journeys to the Moon.

# PASSENGER AND TRAFFIC FORECASTS

ISAVIA COMPILES A TRAFFIC FORECAST AT LEAST ONCE A YEAR FOR THE COMPANY'S CORE OPERATIONS - ONE FOR PASSENGER NUMBERS AT DOMESTIC AIRPORTS AND KEFLAVÍK AIRPORT AND ONE FOR TRAFFIC IN ICELANDIC AIRSPACE.

A passenger forecast for domestic airports is compiled at the end of each 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.

Traffic in the Icelandic air traffic control area is assessed in accordance with information from a working group entitled the Economic Financial Forecasting Group (EFFG). The working group, which prepares a forecast for air traffic over the North Atlantic, is made up of all service providers and representatives of associations using the service in the North Atlantic.

A passenger forecast for Keflavík Airport is compiled 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 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 purposes.

The passenger forecast for 2018, presented in November 2017, expects passenger movements to increase by 18% at Keflavík Airport, rising from 8.8 million to 10.4 million. The share of transit passengers continues to grow, making up an expected 35% of the total number of passengers at the airport.





KEY FIGURES FROM OPERATIONS

From the balance sheet	2017	2016	2015	2014	2013
Revenue	37,974	33,008	26,013	22,079	19,810
EBITDA	9,853	8,857	6,008	4,906	4,470
EBIT	6,523	6,322	3,999	3,328	2,818
Financial revenue/expenses	-1,607	2,304	-181	-605	1,200
Pre-tax profit	4,916	8,626	3,818	2,724	4,018
Overall result	3,949	6,923	3,073	2,197	3,217

From the statement of financial position

Property, plant and equipment	54,332	42,922	31,425	25,715	23,179
Assets	72,548	59,229	45,187	40,849	34,511
Equity	31,005	27,057	20,134	17,061	14,864
Interest-bearing liabilities	25,515	24,206	18,565	18,963	15,886
Current ratio	0.92	1.49	1.30	1.91	1.24

From the statement of cash flows

Operating activities	3,166	6,151	6,326	4,628	4,032
Investment activities	-14,542	-13,760	-5,747	-5,754	-2,966
Financing activities	8,750	8,798	67	2,857	-1,324
Cash and cash equivalents at year-end	3,101	5,831	4,994	4,491	2,730

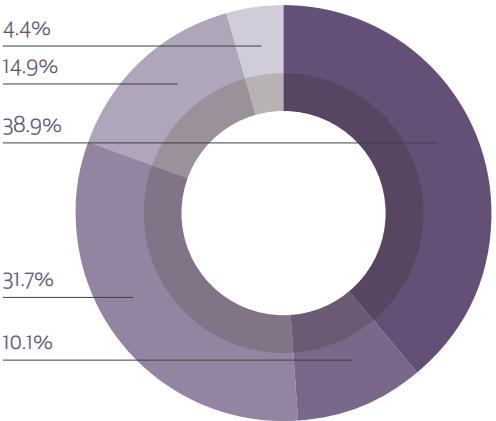
Financial ratios

Contribution margin	26%	27%	23%	22%	23%
Profit margin	10%	21%	12%	10%	16%
Rate of return on assets	0.58	0.63	0.60	0.59	0.58
Return on equity	14%	29%	17%	14%	24%
Earnings per ISK of share capital	0.71	1.24	0.55	0.39	0.58
Equity ratio	43%	46%	45%	42%	43%
Average number of positions	1,350	1,215	1,017	914	848

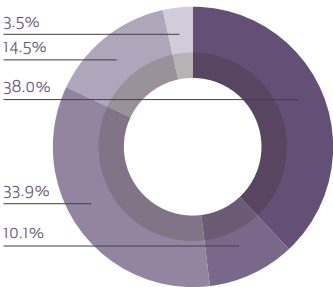
Group Revenue

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

2017

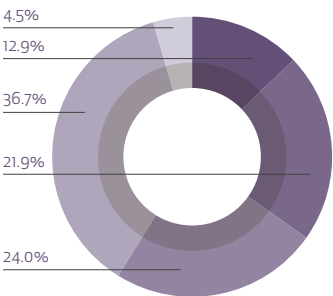
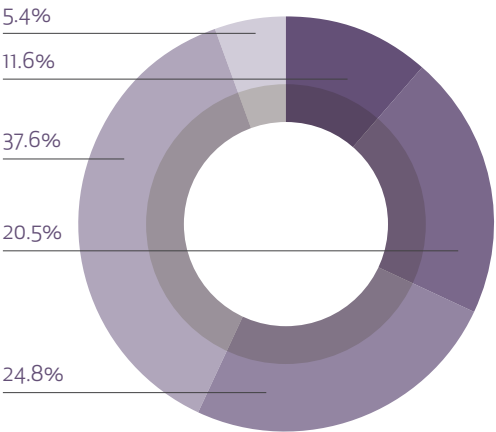


2016



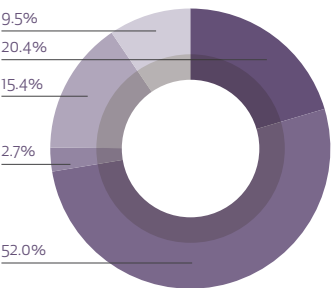
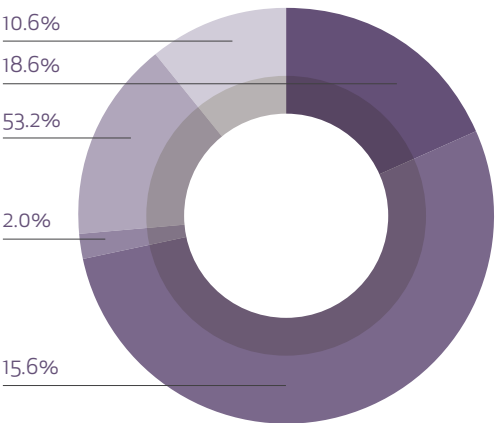
Income from airport services

- 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 second Annual Accounts and Social Report in accordance with the criteria of the Global Reporting Initiative (GRI). The report discusses the manner in which the company follows the criteria of GRI G4, with more comprehensive provision of information. In addition, the report discusses the manner in which Isavia follows the special provisions applicable to the operation of airports according to the G4 Airport Operators Sector Disclosures. The special provisions are specifically intended to address the challenges

and opportunities that airports face when it comes to sustainability.

The information in the report is based on operations in 2017. The information in the social and environmental sections of the report refer to the parent company. The report was prepared by experts in their fields at Isavia. The table below gives the state of play for each GRI G4 criterion and indicates where related information can be found. Over the next few years, further work will be carried out on strengthening the company’s sustainability.

- Compliance
- Partially compliant
- None compliance
- Not applicable

Content		Placement	Status	Page	UNGC
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.	Center for aviation in the North Atlantic	●	8–9	
G4-2	Description of main influences, risks and opportunities	Center for aviation in the North Atlantic, Chairman's statement	●	8–13	
ORGANIZATIONAL PROFILE					
G4-3	Name of the organization.	Isavia ohf.	●		
G4-4	Primary brands, products, and services.	Operations, Executive Board, Scope of operations	●	6–7, 16–17	
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 operates only 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 a public limited company.	●		
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	Operations, Stakeholders, Scope of operations, <a href="https://www.isavia.is/en/corporate/about-isavia/reports-and-statistics/passenger-statistics/facts-and-figures">https://www.isavia.is/en/corporate/about-isavia/reports-and-statistics/passenger-statistics/facts-and-figures</a>	●	6–7, 30–39, 58–63	

Content		Placement	Status	Page	UNGC
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, Key figures from operations, Financial Statement	●	6–7, 30–32, 40–43, 58–63, 64–65, 78–103	
G4-10	Total number of employees by employment contract and gender (a-f total 6 items).	Human Resources	●	40–43	6
G4-11	Percentage of total employees covered by collective bargaining agreements.	Human Resources	●	40–43	3
G4-12	Description of the organization's supply chain:	Stakeholders (suppliers)	○	30–39	
G4-13	Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain.	Center for aviation in the North Atlantic, Corporate Governance	●	10–13, 14–15	
COMMITMENTS TO EXTERNAL INITIATIVES					
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organization.	Stakeholders (government), Environment	●	38–39, 48–55	
G4-15	List of externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	Chairman's statement, Community, Stakeholders (Community), Environment	●	10–13, 28–29, 30–39, 48–55	
G4-16	Memberships of associations (such as industry associations) and national or international advocacy organizations.	Chairman's statement, Community, Stakeholders (Community), Environment	●	10–13, 28–29, 30–39, 48–55	
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES					
G4-17	Operational Structure of the organization.	Isavia's financial statement	●	78–103	
G4-18	Details on report content and aspect boundaries.	This is the second CSR report published by Isavia. It is based on the Global Reporting Initiative (GRI-G4). With additions from the Airport Operators Sector Disclosures.	●		
G4-19	All material Aspects identified in the process for defining report content.	Operations, Stakeholders, Environment	●	6–7, 30–39, 48–55	
G4-20	Aspect Boundary within the organization: Methodology for measures, including assumptions. Additionally for airports: Passengers and cargo from customers	Scope of operations, Human resources, Environment	●	40–43, 48–55, 58–63	
G4-21	Aspect Boundary outside the organization.: Methodology for measures, including assumptions. Additionally for airports: Passengers and cargo from customers	Scope of operations, Human resources, Environment	●	40–43, 48–55, 58–63	




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

Content		Placement	Status	Page	UNGC
G4-22	Explanation of the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Improvements in 2017	●	20–21	
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	Improvements in 2017	●	20–21	
STAKEHOLDER ENGAGEMENT					
G4-24	List of stakeholder groups engaged by the organization.	Community, Stakeholders, Scope of operations	●	28–29, 30–39, 58–63	
G4-25	Basis for identification and selection of stakeholders with whom to engage.	Community, Stakeholders, Scope of operations	●	28–29, 30–39, 58–63	
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.	Center for aviation in the North Atlantic, Chairman's statement, Corporate Governance, stakeholders, Scope of operations, Human Resources	●	8–9, 10–13, 14–15, 30–39, 40–43, 58–63	
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.	Center for aviation in the North Atlantic, Chairman's statement, Community, Stakeholders, Environment	●	8–9, 10–13, 28–29, 30–39, 48–55	
REPORT PROFILE					
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	Report for 2017	●		
G4-29	Date of most recent previous report (if any).	The most recent report was issued in March 2017	●		
G4-30	Reporting cycle (such as annual, biennial).	Yearly	●		
G4-31	Contact point for questions regarding the report or its contents.	Enquiries to be sent to: <a href="https://www.isavia.is/en/corporate/about-isavia/the-company/contact-us/contact-us">https://www.isavia.is/en/corporate/about-isavia/the-company/contact-us/contact-us</a>	●		
G4-32	GRI Content Index. Process for determining the content of the report.	Use was made of GRI-G4 criteria with special clauses on airports	●		
GRI CONTENT INDEX					
G4-33	Policy and current practices with regard to seeking external assurance for the report	Independent Auditor's Report, Compliance with laws and regulations applicable to the company, Risk management, Corporate Governance, Environment	●	14–15, 48–55, 80–81	
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	Corporate Governance	●	14–15	
G4-35	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	Corporate Governance (Executive Board)	◐	16–17	

Content		Placement	Status	Page	UNGC
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	Corporate Governance (Executive Board)	●	16–17	
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 Manager of PMO Development & Administration Isavia on behalf of the Managing Director	●		
G4-38	Composition of the highest governance body and its committees.	Corporate Governance Statement: <a href="https://www.isavia.is/en/corporate/about-isavia/the-company/operating-divisions--organisation-chart">https://www.isavia.is/en/corporate/about-isavia/the-company/operating-divisions--organisation-chart</a>	●		
G4-39	Report whether the Chair of the highest governance body is also an executive officer	Rules of Procedure of the Board: <a href="https://www.isavia.is/en/corporate/about-isavia/the-company/operating-divisions--organisation-chart">https://www.isavia.is/en/corporate/about-isavia/the-company/operating-divisions--organisation-chart</a>	●		
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	General State ownership policy	◐		
G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed	Board's Rules of Procedure and Code of Conduct: <a href="https://www.isavia.is/en/corporate/about-isavia/the-company/governance">https://www.isavia.is/en/corporate/about-isavia/the-company/governance</a>	●		
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	Board's Rules of Procedure and Corporate Governance Statement: <a href="https://www.isavia.is/en/corporate/about-isavia/the-company/governance">https://www.isavia.is/en/corporate/about-isavia/the-company/governance</a>	●		
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.		○		



- Compliance
- Partially compliant
- None compliance
- Not applicable










Content		Placement	Status	Page	UNGC
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.	Corporate Governance	●	14–15	
G4-46	Highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics.	Corporate Governance	●	14–15	
G4-47	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.	Corporate Governance	●	14–15	
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 EVALUATING ECONOMIC, ENVIRONMENTAL AND SOCIAL PERFORMANCE					
G4-49	Process for communicating critical concerns to the highest governance body	Via 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	The 2016 remuneration policy was ratified at the Annual General Meeting	●		
G4-52	Process for determining remuneration	Human Resources	●	40–43	
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	●		

Content		Placement	Status	Page	UNGC
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: <a href="https://www.isavia.is/en/corporate/about-isavia/the-company/company-policies">https://www.isavia.is/en/corporate/about-isavia/the-company/company-policies</a>	●	40–43	10
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.		○		10
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: <a href="https://www.isavia.is/en/corporate/about-isavia/the-company/icelandic-law">https://www.isavia.is/en/corporate/about-isavia/the-company/icelandic-law</a>	●	39	10
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	Isavia's financial statement	●	78–103	
G4-EC2	Risks and opportunities posed by climate change that have the potential to generate substantive changes in operations, revenue or expenditure		○		7
G4-EC3	Coverage of the organization's defined benefit plan obligations	Isavia's financial statement	●	78–103	
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		○		6
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.	All Isavia managers are Icelandic. In the aviation sector, this is the definition of the community's immediate community.	●		6
A01	Airport disclosure: Total number of passengers annually, broken down by passengers on international and domestic flights, and broken down by origin-and-destination and transfer passengers, including transit passengers.	Financial position, Facts and figures: <a href="https://www.isavia.is/en/corporate/about-isavia/reports-and-statistics/passenger-statistics/facts-and-figures">https://www.isavia.is/en/corporate/about-isavia/reports-and-statistics/passenger-statistics/facts-and-figures</a>	●	58–63	
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.	Scope of operations	●	58–63	










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

Content		Placement	Status	Page	UNGC
A03	Airport disclosure: Total amount of cargo tonnage	Scope of operations	●	58–63	
INDIRECT ECONOMIC IMPACTS					
G4-EC7	Development and impact of infrastructure investments and services supported. Additionally for airports: Particular relevance to the airport sector because of high impact on local economies.	Isavia's financial statement	●	78–103	
G4-EC8	Significant indirect economic impacts, including the extent of impacts	Scope of operations	◐	58–63	
PROCUREMENT PRACTICES					
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	Stakeholders (suppliers)	●	39	
ENVIRONMENTAL					
MATERIALS					
G4-EN1	 Materials used by weight or volume	Environment	●	49–50	7/8
G4-EN2	 Percentage of materials used that are recycled input materials	Environment	●		8
ENERGY					
G4-EN3	Energy consumption within the organization, including fuel types used	Environment	●	49–50	7/8
G4-EN4	Energy consumption outside the organization, including fuel types used	Environment	◐	49–50	8
G4-EN5	Energy intensity	More applicable to manufacturing companies.	◐		8
G4-EN6	Reduction of energy consumption. Additionally for airports: Important for airports to share sectoral best practice.	Environment	○		8, 9
G4-EN7	Reductions in energy requirements of products and services	Environment	◐	49–50	8, 9
WATER					
G4-EN8	Total water withdrawal by source	Environment	◐	50	7, 8
G4-EN9	Water sources significantly affected by withdrawal of water	No water shortage in the country.	●		8
G4-EN10	Percentage and total volume of water recycled and reused	Environment	○		8
A04	Airport disclosure: Quality of storm water by applicable regulatory standards.	Environment	◐	50	
BIODIVERSITY					
G4-EN11	Operational sited owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Environment, Wildlife: <a href="https://www.isavia.is/fyrirtaekid/um-isavia/samfelag-og-umhverfi/umhverfi/lifriki">https://www.isavia.is/fyrirtaekid/um-isavia/samfelag-og-umhverfi/umhverfi/lifriki</a>	◐	54	8
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	Environment, Ecosystem: <a href="https://www.isavia.is/ecosystem">www.isavia.is/ecosystem</a>	◐		8
G4-EN13	Habitats protected or restored	Environment	●		8

Content		Placement	Status	Page	UNGC
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	Environment, Ecosystem: <a href="https://www.isavia.is/ecosystem">www.isavia.is/ecosystem</a>	●		8
EMISSIONS					
G4-EN15	 Direct greenhouse gas (GHG) emissions (scope 1)	Environment	●	51–53	7, 8
G4-EN16	 Energy indirect greenhouse gas (GHG) emissions (scope 2)	Environment	●	51–53	7, 8
G4-EN17	 Other indirect greenhouse gas (GHG) emissions (scope 3)	Environment	◐	51–53	7, 8
G4-EN18	 Greenhouse gas (GHG) emissions intensity	Environment	●	51–53	8
G4-EN19	 Reduction of greenhouse gas (GHG) emissions. Additionally for airports: Reference to ACI-ACA Airport Carbon Accreditation Program.	Environment	◐	48–55	8, 9
A05	 Airport disclosure: Ambient air quality levels according to pollutant concentrations in microgram per cubic meter or parts per million by regulatory regime.	Environment	◐	52–53	7, 8
G4-EN20	 Emissions of ozone-depleting substances (ODS)	Environment	●	53	7, 8
G4-EN21	 Nox, Sox and other significant air emissions	Environment	◐	52–53	7, 8
EFFLUENTS AND WASTE					
G4-EN22	Total water discharge by quality and destination	Environment, Water: <a href="https://www.isavia.is/en/corporate/about-isavia/community-and-environment/isavia-in-society/environment/water">https://www.isavia.is/en/corporate/about-isavia/community-and-environment/isavia-in-society/environment/water</a>	◐	50	8
G4-EN23	 Total weight of waste by type and disposal method. Additionally for airports: Report on the weight of waste from international flights.	Environment, Recycling: <a href="https://www.isavia.is/en/corporate/about-isavia/community-and-environment/isavia-in-society/environment/recycling">https://www.isavia.is/en/corporate/about-isavia/community-and-environment/isavia-in-society/environment/recycling</a>	●	51	8
A06	Airport disclosure: Aircraft and pavement de-icing/anti-icing fluid used and treated by m3 and/or metric tonnes	Environment	●	49–50	
G4-EN24	Total number and volume of significant spills	Environment	●	54	8
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	Environment	●		8
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	Environment	●		8




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

Content		Placement	Status	Page	UNGC
G4-EN27	 Extent of impact mitigation of environmental impacts of products and services	Environment, Air: <a href="http://www.isavia.is/air">www.isavia.is/air</a>	●	48–55	7, 8, 9
G4-EN28	 Percentage of products sold and their packaging materials that are reclaimed by category	Environment	○		8
NOISE					
A07	Additionally for airports: Number and percentage change of people residing in areas affected by noise	Environment, Noise: <a href="https://www.isavia.is/en/corporate/about-isavia/community-and-environment/isavia-in-society/environment/noise-monitoring">https://www.isavia.is/en/corporate/about-isavia/community-and-environment/isavia-in-society/environment/noise-monitoring</a>	●	52	
COMPLIANCE					
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Environment	●	52	8
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		○		8
OVERALL					
G4-EN31	Total environmental protection expenditures and investments by type		○		7, 8, 9
SUPPLIER ENVIRONMENTAL ASSESSMENT					
G4-EN32	 Percentage of new suppliers that were screened using environmental criteria		○		8
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken		○		8
ENVIRONMENTAL GRIEVANCE MECHANISMS					
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	Environment	●	48–55	8
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	Human Resources	●	40–43	6
G4-LA2	Benefits provided to full-time employees, by significant locations of operation	Human Resources	●	40–43	
G4-LA3	Return to work and retention rates after parental leave, by gender	Human Resources	●	40–43	6
LABOUR/MANAGEMENT RELATIONS					
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	Human Resources	●	40–43	3

Content		Placement	Status	Page	UNGC
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	Human Resources	●	40-43	
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	Human Resources	●	40-43	1
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	Human Resources	●	40-43	6
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Human Resources	●	40-43	
G4-LA11	Percentage of employees receiving performance and career development reviews, by gender and by employee category	Human Resources	●	40-43	6
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	Human Resources	●	40-43	6
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	Human resources, Equal Pay Audit by PwC	●	40-43	6
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		○		



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

Content		Placement	Status	Page	UNGC
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		○		2
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	Human Resources	◐	40–43	1
NON-DISCRIMINATION					
G4-HR3	Total number of incidents of discrimination and corrective actions taken	None	●		6
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 such violations are deemed to be unlikely. A code of ethics for suppliers is been introduced.	◐	28	3
CHILD LABOUR					
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 such violations are deemed to be unlikely. A code of ethics for suppliers is been introduced.	◐	28	5
FORCED OR COMPULSORY LABOUR					
G4-HR6	 Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	Isavia operates only in Iceland, and such violations are deemed to be unlikely.	◐		4
SECURITY PRACTICE					
G4-HR7	Percentage of security personnel trained in the organization's human rights policies of procedures that are relevant to operations		○		1
INDIGENOUS RIGHTS					
G4-HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken	Not applicable to Iceland	●		1
ASSESSMENT					
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	Not applicable to Iceland	●		1
SUPPLIER HUMAN RIGHTS ASSESSMENT					
G4-HR10	 Percentage of new suppliers that where screened using human rights criteria		○		2

Content		Placement	Status	Page	UNGC
G4-HR11	 Significant actual and potential negative human rights impacts in the supply chain and actions taken		○		2
HUMAN RIGHTS GRIEVANCE MECHANISMS					
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	No complaints	●		1
SOCIETY					
THE SOCIETY					
LOCAL COMMUNITIES					
G4-S01	 Percentage of operations with implimented local community engagement, impact assessments, and development programs	Community, Stakeholders	●	30-39	1
G4-S02	Operations with significant actual and potential negative impacts on local communitis	Community	●	30-39	1
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 such incidents reported	●		
ANTI-CORRUPTION					
G4-S03	Total number and percentage of operations assessed for risks related to corruption		○		10
G4-S04	Communication and training on anti-corruption policies and procedures	Board's Rules of Procedure and Code of Conduct: <a href="https://www.isavia.is/en/corporate/about-isavia/the-company/governance">https://www.isavia.is/en/corporate/about-isavia/the-company/governance</a>	◐		10
G4-S05	Confirmed incidents of corruption and actions taken	No complaints received	●		10
PUBLIC POLICY					
G4-S06	Total value of political contributions by country and recipient/beneficiary	No funding is granted to political parties	●		10
ANTI-COMPETITIVE BEHAVIOUR					
G4-S07	Total number of legal actions for anti-competitive behavior, anti trust, and monopoly practices and their outcomes	None	●		
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		○		

- Compliance
- Partially compliant
- None compliance
- Not applicable

Content	Placement	Status	Page	UNGC
GRIEVANCE MECHANISMS FOR IMPACTS ON SOCIETY				
G4-S011	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	Community, Environment	●	30–39, 48–55
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.	Environment	●	54
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 complaints received by Isavia	●	
G4-PR5	Results of surveys measuring customer satisfaction	Stockholder (customers)	●	30–32
MARKTEING COMMUNICATIONS				
G4-PR6	Sale of banned or disputed products	Isavia does not sell prohibited or controversial products itself. However, the company has an A1:H229 with the operators of shops and restaurants at Keflavik Airport which sell 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 received	●	
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	●	





# REPORT OF THE BOARD OF DIRECTORS

ISAVIA OHF. IS A PUBLICLY OWNED COMPANY OPERATING ON THE BASIS OF ACT NO. 2/1995 ON PUBLICLY OWNED COMPANIES. THE STATE TREASURY IS THE ONLY SHAREHOLDER 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 2017 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 2017 amounted to approximately ISK 37,974.3 million and had, therefore, increased by ISK 4,966 million year-on-year. The year's profits amounted to ISK 3,948.6 million, an ISK 2,974.2 million increase year-on-year. This fall in profits can be entirely or more than entirely accounted for by a change in exchange rate of ISK 3,602 million, caused chiefly by obtaining credit in foreign currencies. Changes in exchange rates caused by a change in the ISK rate are, by their very nature, not part of the core operations of the company. According to the balance sheet, the company's total assets increased by ISK 13,319.3 million in 2017 and were ISK 72,548.3 million at the end of the year. The company's recorded equity amounted to ISK 31,005.5 million at the end of 2017, increasing by ISK 3,948.6 million from the close of 2016. The equity ratio at year-end 2017 was 42.74%, compared to 45.68% at year-end 2016. Full-time positions were on average 1350 in 2017, increasing by 135 year-on-year.

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 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 March 2018.

Isavia ohf. has established policies on social responsibility for itself and became a member of the UN Global Compact (UNGC). At the same time, efforts have been made to harmonise the company's policy formulation and corporate governance to the ten main principles of UNGC. The company's annual accounts now reflect these focus points in environmental, social and employee issues. In addition, Isavia ohf. annually submits a report to the United Nations describing the company's goals and achievements in the ten categories specified. The report was 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. It should, however, be specifically pointed out that there is some uncertainty as regards the processing of VAT reports submitted to the Directorate of Internal Revenue. Discussion of this can be found in Explanation 14 of the Financial Statements. The company has presented its views in a reasoned and justified manner. Until such time as there is a definite ruling in this case, the uncertainty will remain. If the ruling is unfavourable to

the company, this will affect the company's operations. 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 2017 and confirm these accounts with their signatures.

Reykjavik,  
15 March 2018

Board of Directors

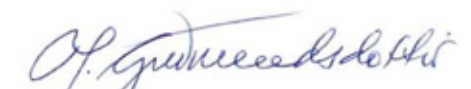
  
Ingimundur Sigurpálsson,  
Chairman of the Board

  
Helga Sigrún Harðardóttir

  
Matthías Páll Imóðsson

Managing Director

  
Björn Óli Hauksson

  
Margrét Guðmundsdóttir

  
Ólafur Ólafsson

# INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS  
AND SHAREHOLDERS OF ISAVIA OHF.

### Opinion

We have audited the accompanying 2017 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 2017, the financial position of the company as at 31 December 2017 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.

### Comment

Without making a reservation to our opinion, we would point out Explanation 14 of the Financial Statements, which deals with uncertainty about the collection of VAT claims at the Directorate of Internal Revenue.

### 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 Article 104(2) 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. Where 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.

### Auditor's 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 bypassing 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 doubts regarding 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, where appropriate.

Reykjavik,  
15 March 2018

  
Anna Birgitta Geirfinnsdóttir,  
Auditor

  
Kristjan Þór Ragnarsson  
Auditor



STATEMENT OF COMPREHENSIVE  
INCOME IN 2017

	Notes	Consolidation 2017	2016
Operating revenues .....	4	37.974.293	33.008.318
Cost of goods sold .....		(5.842.486)	(5.449.860)
Salaries and related expenses .....	5	(16.741.851)	(13.863.834)
Administrative expenses .....		(627.211)	(731.905)
Other operating expenses .....		(4.909.509)	(4.106.199)
Depreciation and amortization .....	9, 10	(3.330.096)	(2.534.516)
<b>Operating profit</b>		<b>6.523.140</b>	<b>6.322.003</b>
Financial income .....	7	226.080	349.742
Financial expenses .....	7	(1.022.348)	(837.089)
Net exchange rate differences .....	7	(810.548)	2.791.234
<b>Profit before taxes</b>		<b>4.916.324</b>	<b>8.625.890</b>
Income tax .....	8	(967.738)	(1.703.060)
<b>Total comprehensive income for the year</b>		<b>3.948.586</b>	<b>6.922.830</b>

CONSOLIDATED BALANCE  
SHEET AS OF 31 DECEMBER 2017

Assets	Notes	Consolidation 31.12.2017	31.12.2016
<b>Non-current assets</b>			
Property, plant and equipment .....	9	54.331.542	42.921.660
Intangible assets .....	10	5.173.155	5.320.693
Bonds and other long term assets .....	12	188.262	223.944
		<b>59.692.959</b>	<b>48.466.297</b>
<b>Current assets</b>			
Inventories .....	13	546.721	519.486
Accounts receivables .....	14	4.653.881	2.625.764
Current maturities of long term assets .....	12	36.964	36.551
Other receivables .....	14	4.516.482	1.750.430
Bank balances and cash .....	14	3.101.287	5.830.506
		<b>12.855.335</b>	<b>10.762.737</b>
<b>Total assets</b>		<b>72.548.293</b>	<b>59.229.033</b>
<b>Equity and liabilities</b>			
<b>Equity</b>	15		
Share capital .....		5.589.063	5.589.063
Statutory reserves .....		2.483.798	2.483.798
Revaluation reserves .....		45.007	46.331
Retained earnings .....		22.887.611	18.937.671
Total equity		<b>31.005.480</b>	<b>27.056.864</b>
<b>Non-current liabilities</b>			
Loans from credit institutions .....	16	25.515.178	22.970.292
Deferred tax liabilities .....	17	2.056.586	1.987.019
		<b>27.571.764</b>	<b>24.957.311</b>
<b>Current liabilities</b>			
Accounts payable .....	18	2.276.999	2.567.127
Current maturities of non-current liabilities .....	16	8.223.715	1.236.190
Current tax liabilities .....	8	898.152	1.075.721
Other current liabilities .....	18	2.572.183	2.335.821
		<b>13.971.050</b>	<b>7.214.859</b>
Liabilities		<b>41.542.814</b>	<b>32.172.170</b>
<b>Total equity and liabilities</b>		<b>72.548.293</b>	<b>59.229.033</b>

## EQUITY STATEMENT

	Share Capital	Statutory reserves	Revaluation reserves	Retained earnings	Total Equity
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	27.056.864
Opening balance at 1 January 2017 .....	5.589.063	2.483.798	46.331	18.937.671	27.056.864
Transfer to retained earnings .....	0	0	(1.324)	1.324	0
Translation exchange differences .....	0	0	0	30	30
Comprehensive income .....	0	0	0	3.948.586	3.948.586
Balance at 31 December 2017 .....	5.589.063	2.483.798	45.007	22.887.611	31.005.480

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

## STATEMENT OF CASH FLOWS 2017

	Notes	Consolidation	
		2017	2016
<b>Cash flows from operating activities</b>			
Operating profit .....		6.523.140	6.322.003
Depreciation and amortization .....	9, 10	3.330.096	2.534.516
Accounting provision of current assets .....	13,14	76.305	17.693
(Gain) Loss on disposal of assets .....		(14.394)	(2.738)
Operating cash flow before transfer to working capital		9.915.147	8.871.474
Changes in inventories .....	13	(29.803)	(67.176)
Changes in operating assets .....		(4.904.808)	(1.935.246)
Changes in operating liabilities .....		(34.979)	248.942
Cash generated from operations		4.945.556	7.117.994
Interest earned .....		290.528	318.997
Finance costs .....		(994.055)	(805.308)
Income taxes paid .....		(1.075.721)	(480.729)
<b>Net cash generated from operating activities</b>		<b>3.166.308</b>	<b>6.150.954</b>
<b>Investing activities</b>			
Acquisition of property, plant and equipment .....	9	(14.424.814)	(13.735.567)
Sales of property, plant and equipment .....		23.411	23.545
Acquisition of intangible assets .....	10	(176.643)	(93.051)
Installments on bonds .....	12	36.298	44.607
		(14.541.748)	(13.760.466)
<b>Financing activities</b>			
Repayments of borrowings .....	16	(1.234.444)	(1.135.128)
New bank loans raised .....	16	9.984.250	9.933.200
		8.749.806	8.798.072
Net change in cash and cash equivalents .....		(2.625.634)	1.188.560
Cash and cash equivalents at the beginning of the year .....		5.830.506	4.993.722
Effect of foreign exchange rates .....		(103.585)	(351.775)
Cash and cash equivalents at the end of the year .....		<b>3.101.287</b>	<b>5.830.506</b>



NOTES

1. General information

Isavia ohf. (the Company) was established in the beginning of 2010 with a merger between Flugstodir ohf. and Keflavíkurlugvöllur 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 not implemented new and revised IFRS in issue but not yet effective. The company has examined the impact of three new standards that will be effective in year 2018 and 2019. The IFRS standards are IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers that are effective January 1st 2018. On the other hand IFRS 16 Leases that is effective January 1st 2019. The impact of IFRS 9 and IFRS 15 have been assessed insignificant for the company's financial statements. The effect of IFRS 16 have not been fully assessed but the implementation of the standard will have the effect that Frihöfnin ehf. will capitalize the right that reflects the use of lease from Isavia and debt that reflect the obligations to pay rent but IFRS 16 will have insignificant influence on other company of this consolidation.

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.

2. Summary of Significant Accounting Policies (continued)

Construction contracts

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

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

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

2. Summary of Significant Accounting Policies (continued)

Property, plant and equipment

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

With the merger of Flugfjaraskipti 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 an appropriated assessor. The changes in the value is credited to other equity as revaluation reserve and the tax effect is 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 include 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 depreciation methods are evaluated in end of each accounting period.

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development 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 available for use and sale
- The intention 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 economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the asset
- The ability to measure 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 assessments they are stated at cost less accumulated depreciations and impairment losses.

Impairment

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

Inventories

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

Provisions

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

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 point 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 the 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 have 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

	2017	2016
Revenue from sales .....	12.033.544	11.205.961
Revenue from services .....	21.626.387	18.375.331
Revenue from contracts .....	109.165	121.801
Revenue from long term assets.....	4.205.197	3.305.201
	<u>37.974.293</u>	<u>33.008.311</u>

Revenue from long term assets consist from revenues of assets, land and equipment.

5. Salaries and related expenses

	2017	2016
Salaries .....	12.838.337	10.770.431
Pension fund, employers's contribution .....	1.772.964	1.261.081
Payroll taxes .....	990.759	846.011
Salary-related expenses .....	201.142	178.471
Additional contribution to pension fund and changes in vacation obligation .....	564.149	401.001
Capitalized employment expenses .....	(314.699)	(166.828)
Contractor payments .....	5.174	10.141
Other employee expenses .....	684.026	563.511
	<u>16.741.851</u>	<u>13.863.831</u>
Average number of employees .....	1.350	1.211

The Company's total salaries and benefits to the boards of the companies in this consolidation, managing director, directors of subsidiaries and executives of the parent company for the year 2017 were ISK 351 million compared to ISK 306,2 million for the year 2016. The Company's CEO and Managing Director of Duty Free Store ehf. and Tern Systems ehf. salaries were decided by the wage negotiation committee until laws regarding negotiation committees changed July 1st 2017. In June 2017 negotiation committee ruled about change for the salaries of managing director of Duty Free Store ehf. which was valid from January 1st 2016 and is corrected salaries for year 2017 charged in the year 2017.

6. Fees to auditors

	2017		2016	
	Audit	Other service	Audit	Other service
Deloitte ehf. ....	26.143	28.451	19.463	20.749

Other services are mainly review of interim financial statement, accounting and tax service and assistance on tax return. Included in other service for the year 2017 are ISK 17,5 million (year 2016: ISK 2,1 million) because of projects that are not related to accounting.

7. Financial income and expenses

Financial income

	2017	2016
Interest on bank deposits .....	108.857	202.952
Interest revenue on investments held to maturity .....	19.381	34.234
Other interest revenue .....	97.842	112.556
	<u>226.080</u>	<u>349.742</u>

Financial expenses

	2017	2016
Interest expense and indexation .....	(931.555)	(727.356)
Debt collection fee .....	(86.612)	(104.545)
Interest on late payments .....	(4.181)	(5.189)
	<u>(1.022.348)</u>	<u>(837.089)</u>

Net exchange rate differences

	2017	2016
Net exchange rate differences .....	(810.548)	2.791.234
	<u>(810.548)</u>	<u>2.791.234</u>



8. Income tax

Income tax has been calculated and recorded in the Financial Statements, the amount charged in the Income Statement is ISK 967, million. Income tax payable in the year 2018 is ISK 898,2 million. In year 2016 income tax charged in the Income Statement was ISK 1,703, million and income tax payable in year 2017 was ISK 1,075,7 million.

The effective tax rate is specified as follows:

	2017		2016	
	Amount	%	Amount	%
Profit before taxes .....	4.916.324		8.625.890	
Tax rate .....	983.265	20,0%	1.725.178	20,0%
Non-taxable revenues .....	(16.216)	(0,5%)	(19.791)	(0,2%)
Joint taxation .....	319	(0,3%)	(3.402)	(0,0%)
Other changes .....	371	0,3%	1.075	0,0%
Income tax acc. to Statement of Comp. Income .....	967.738	19,5%	1.703.060	19,7%

9. Property, plant and equipment

	Buildings and artwork	Aprons and car parks	Control systems	Other assets	Total
<b>Cost</b>					
Balance at 1 January 2016 .....	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 1 January 2017 .....	30.206.306	9.962.029	4.803.178	11.420.431	56.391.944
Additions .....	4.082.305	7.308.869	263.030	2.770.609	14.424.814
Disposals .....	0	0	(189.781)	(886.962)	(1.076.743)
Sold .....	0	0	0	(36.346)	(36.346)
Balance at 31 December 2017 .....	34.288.611	17.270.898	4.876.427	13.267.732	69.703.668
<b>Accumulated depreciation</b>					
Balance at 1 January 2016 .....	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 1 January 2017 .....	6.030.575	1.506.154	2.301.958	3.631.598	13.470.284
Charge for the year .....	991.945	545.752	338.178	1.130.041	3.005.915
Disposals .....	0	0	(189.781)	(728.300)	(918.081)
Sold .....	0	0	0	(185.991)	(185.991)
Balance at 31 December 2017 .....	7.022.519	2.051.906	2.450.356	3.847.348	15.372.127
<b>Book value</b>					
Book value at beginning of year .....	24.175.731	8.455.876	2.501.220	7.788.834	42.921.660
Book value at year-end .....	27.266.092	15.218.993	2.426.071	9.420.385	54.331.541

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:

	31.12.2017	31.12.2016
Revalued book value .....	112.712	115.708
Impact of the special revaluation .....	(54.887)	(56.501)
Book value without impact of revaluation .....	57.825	59.207

9. Property, plant and equipment (continued)

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

	2017		2016	
	Assessment value	Insurance value	Assessment value	Insurance value
<b>Consolidation</b>				
Buildings and sites .....	23.499.100	54.968.780	21.970.934	44.483.064
Machinery and equipment, asset insurances .....		10.926.075		12.899.952
Other insurances .....		692.686		712.958
Halt insurance .....		15.440.299		13.158.988

10. Intangible assets and amortization

Consolidation	Usage agreement on facilities	Usage agreement on runways	Software	Total
<b>Cost</b>				
Balance at 1 January 2016 .....	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 1 January 2017 .....	477.035	5.706.000	1.233.082	7.416.117
Additions .....	0	0	176.643	176.643
Disposals .....	0	0	(44.328)	(44.328)
Balance at 31 December 2017 .....	477.035	5.706.000	1.365.397	7.548.432
<b>Amortization</b>				
Balance at 1 January 2016 .....	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 1 January 2017 .....	127.209	1.521.600	446.615	2.095.425
Charge for the year .....	15.901	190.200	118.080	324.181
Disposals .....	0	0	(44.328)	(44.328)
Balance at 31 December 2017 .....	143.110	1.711.800	520.367	2.375.277
<b>Book value</b>				
Book value at beginning of year .....	349.826	4.184.400	786.467	5.320.693
Book value at year-end .....	333.925	3.994.200	845.030	5.173.155

Due to the development of software intended for sale on the global market in the coming years, the development cost amounts to approximately ISK 62.5 million which was capitalized in calendar years 2012 to 2015. This is due to additions in one of the company's software product which is Tern ATC System or TAS but this software divides into several parts. The software development was completed in the second half of calendar year 2015 and are available 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
<b>Shares in subsidiaries</b>			
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

12. Bonds and other long term assets

	31.12.2017	31.12.2016
Bond loan, weighted average of interest rate 5.48% .....	225.226	260.494
Current maturities .....	(36.964)	(36.551)
	188.262	223.944

Bonds and long term assets installments are specified as follows:

	31.12.2017	31.12.2016
Year 2017 .....	-	36.551
Year 2018 .....	36.964	36.845
Year 2019 .....	37.277	37.153
Year 2020 .....	37.605	37.475
Year 2021 .....	37.947	37.812
Year 2022 .....	38.305	38.163
Installments later .....	37.128	36.495
	225.226	260.494

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

13. Inventories

	31.12.2017	31.12.2016
Goods for resale .....	538.977	502.153
Goods in transit .....	19.841	31.998
Allowance for old and obsolete inventory .....	(12.097)	(14.665)
	546.721	519.486

Changes in allowance for old and obsolete inventory:

At the beginning of the year .....	(14.665)	(13.132)
Reversed allowance for old and obsolete inventory .....	(18.330)	(19.040)
Inventories written off .....	20.898	17.507
At year-end .....	(12.097)	(14.665)

Insurance value of inventories .....	686.549	708.382
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No inventories have been pledged at year-end 2017.

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

14. Other financial assets

Accounts receivables

	31.12.2017	31.12.2016
Domestic receivables .....	2.963.459	1.897.470
Foreign receivables .....	645.247	493.387
Construction contracts .....	109.165	121.809
Allowances for doubtful accounts .....	(132.026)	(58.289)
Receivables Joint Finance contract .....	1.068.034	171.387
	4.653.881	2.625.764

Construction contracts consist of two contracts. In the year 2017 a contract was made regarding installation of system for four larges airports in South-Korea and that contract is still in progress. Also the company made a contract regarding installation on a system at Jej Island in South-Korea which is still not finished. At the end of year 2017 the company credited because of these contracts ISK 109,2 millior At the same time last year the credit was ISK 121,8 million because of contracts.

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:

	31.12.2017		31.12.2016	
	Gross amount	Allowance	Gross amount	Allowance
Receivables not yet due .....	2.007.007	24.914	1.726.539	20.380
Receivables, overdue 1-90 days .....	1.471.454	56.057	673.977	14.969
Receivables, overdue 91-180 days .....	183.902	24.787	90.292	9.816
Receivables, overdue 181-210 days .....	30.367	17.682	10.208	9.232
Receivables, overdue 211 days and older .....	25.141	8.585	11.648	3.892
	3.717.872	132.026	2.512.665	58.289

Changes in the allowance for doubtful accounts:

	31.12.2017	31.12.2016
At the beginning of the year .....	(58.289)	(42.129)
Impairment loss recognized on receivables .....	(73.737)	(16.171)
Amounts written off as uncollectable.....	0	11
At year-end .....	(132.026)	(58.289)

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

Other receivables

	31.12.2017	31.12.2016
Value added tax, receivables .....	4.005.085	1.320.776
Prepaid expenses .....	96.191	96.776
Capital income tax .....	34.709	29.620
Prepaid salaries .....	60.032	64.421
Other receivables .....	320.464	238.837
	4.516.482	1.750.430

The company's claim for value added tax consists mainly of unprocessed VAT reports from the Directorate of Internal Revenue for the period September 2016 to December 2017. The Directorate of Internal Revenue has questioned the validity of the assumption of value added tax registration that the company serves international flights at Keflavík Airport, according to article 12 in the Act on Value Added Tax, and the company does not therefore have the right to use a zero tax rate method and get VAT refunded from purchased supplies and services at the same time. The company on the other hand believes that this important assumption was in place when the company was established. The company has made it's argument but The Directorate of Internal Revenue has not ruled on the matter. The financial statement for the year 2017 is done according to the methodology that has been used since the company was established in the year 2010

If the ruling of the matter becomes unfavorable for the company, the impact can be significant. The estimated effect on the financial statements for the period will be a decrease in the operating income for the period by 578 million ISK, increase in tangible fixed assets by 3.758 million ISK while the corresponding decrease in other short-term claims is the same. There will also be a decrease ISK 462 million in equity after taking into account tax effects.

Bank balances and cash

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

	31.12.2017	31.12.2016
Bank balances in ISK .....	1.354.884	1.487.033
Bank balances in foreign currencies .....	1.738.149	1.168.823
Cash in ISK .....	8.254	12.436
Time deposit .....	0	3.162.214
	3.101.287	5.830.506

**15. Equity**

Share capital is specified as follows:

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

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

**16. Long term borrowings**

	Loans from credit institutions	
	31.12.2017	31.12.2016
Liabilites in CHF .....	0	2.599.378
Liabilites in EUR .....	24.611.729	11.721.939
Liabilites in USD .....	2.764.134	3.167.489
Liabilites in ISK .....	6.363.030	6.717.676
	33.738.894	24.206.482
Current portion of long term liabilities .....	(8.223.715)	(1.236.190)
Non-current liabilities at year-end .....	25.515.178	22.970.292

Change in liabilities for the year is following:

Liabilities at beginning of the year .....	24.206.482	18.564.692
New liabilities in the year .....	9.984.250	9.933.200
Installments for the year .....	(1.234.444)	(1.135.128)
Exchange rate difference and indexation .....	782.605	(3.156.282)
Liabilities at the end of the year .....	33.738.894	24.206.482

Installments of non-current liabilities are specified as follows:

	Loans from credit institutions	
	31.12.2017	31.12.2016
Installments in 2017 .....	-	1.236.190
Installments in 2018 .....	8.223.715	1.131.133
Installments in 2019 .....	4.634.826	1.260.336
Installments in 2020 .....	1.409.903	1.389.881
Installments in 2021 .....	1.416.623	1.396.475
Installments in 2022 .....	1.332.836	1.314.242
Installments later .....	16.720.991	16.478.225
	33.738.894	24.206.482

Loans amounting to ISK 32.552,6 million are subject to financial covenants regarding equity ratio. Thereof loans amounting to ISK 19.16 million are also subject to condition of net interest bearing debts/EBITDA ratio. The financial covenants are reviewed on a regular basis an it is management view that they are unlikely to be breached.

**17. Deferred tax liability**

	31.12.2017	31.12.2016
Balance at beginning of the year .....	1.987.019	1.359.680
Effects from joint taxation .....	(3.992)	(3.402)
Calculated income tax for the year .....	972.229	1.706.462
Income tax payable for the next year .....	(898.670)	(1.075.721)
Balance at the end of the year .....	2.056.586	1.987.019

**17. Deferred tax liability (continued)**

Deferred tax balances consist of the following account balances

	31.12.2017	31.12.2016
Property, plant and equipment .....	1.974.767	1.600.928
Current assets .....	2.594	5.823
Other items .....	1.138	(11.002)
Exchange differences .....	78.087	391.270
	2.056.586	1.987.019

**18. Other financial liabilities**

Accounts payable

	31.12.2017	31.12.2016
Domestic accounts payable .....	1.890.185	2.336.971
Foreign accounts payable .....	386.814	230.156
	2.276.999	2.567.127

Current maturities of long-term liabilities

	31.12.2017	31.12.2016
Loans from credit institutions .....	8.223.715	1.236.190
	8.223.715	1.236.190

Other current liabilities

	31.12.2017	31.12.2016
Value added tax, payable .....	23.596	23.111
Deferred revenue .....	13.232	13.206
Accrued additional contribution to pension fund .....	292.551	221.496
Salaries and related expenses payable .....	645.885	514.909
Accrued holiday commitment .....	1.227.694	1.119.385
Accrued interest, payable .....	150.669	142.413
Other liabilities .....	88.311	106.331
Deferred revenue .....	129.791	187.850
Unfinished construction contract .....	455	7.121
	2.572.183	2.335.821

**19. Financial risk**

Financial instruments

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

Financial assets	31.12.2017	31.12.2016
Bank balance and cash .....	3.101.287	5.830.506
Financial assets that are intended to hold to maturity .....	225.226	260.494
Loans and receivables .....	9.014.140	4.214.997

Financial liabilities	31.12.2017	31.12.2016
Other financial liabilities .....	39.486.228	30.185.151

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

Risk management

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



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:

	31.12.2017		31.12.2016	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on profit or loss and other equity .....	(116.511)	(233.022)	(66.810)	(133.623)

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	
	2017	2016	2017	2016
EUR .....	125,05	119,13	120,54	133,78
GBP .....	140,98	138,91	137,45	164,27
JPY .....	0,928	0,966	0,951	1,113
CHF .....	107,07	110,81	108,43	122,66
DKK .....	16,80	16,02	16,20	17,97
NOK .....	12,73	13,11	12,93	14,39
SEK .....	12,71	12,43	12,52	14,16
USD .....	104,42	112,82	106,78	120,83
CAD .....	83,32	83,72	82,36	91,18

Foreign currency risk 31.12.2017

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

19. Financial risk (continued)

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	(2.936.588)
CAD .....	1.387	0	1.387

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 applies 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 increase of the relevant foreign currency rate against the ISK would have an opposite impact on profit or other equity.

Effects on profit or loss and equity

	31.12.2017		31.12.2016	
	5%	10%	5%	10%
EUR .....	(907.335)	(1.814.671)	(426.891)	(853.781)
GBP .....	684	1.369	2.358	4.715
JPY .....	33	67	61	123
CHF .....	(211)	(422)	(101.915)	(203.829)
DKK .....	2.308	4.615	1.577	3.155
NOK .....	(235)	(470)	(17)	(34)
SEK .....	(44)	(88)	(28)	(56)
USD .....	(106.115)	(212.230)	(117.464)	(234.927)
CAD .....	135	271	55	111

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	
	31.12.2017	31.12.2016
Bonds and other long term assets .....	225.226	260.494
Accounts receivables .....	4.653.881	2.625.764
Other receivables .....	4.360.259	1.589.233
Bank balances and cash .....	3.101.287	5.830.506
	12.340.652	10.305.997

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
<b>Liabilities 31.12.2017</b>				
Non-interest bearing .....	5.747.334	0	0	5.747.334
Floating interest rates .....	8.119.749	8.405.433	16.027.382	32.552.564
Fixed interest rates .....	103.966	388.755	693.609	1.186.330
	13.971.050	8.794.187	16.720.991	39.486.228
<b>Assets 31.12.2017</b>				
Non-interest bearing .....	9.016.248	0	0	9.016.248
Floating interest rates .....	3.136.142	151.134	37.128	3.324.404
	12.152.391	151.134	37.128	12.340.652
<b>Net balance 31.12.2017</b>	(1.818.659)	(8.643.053)	(16.683.863)	(27.145.576)
	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
<b>Liabilities 31.12.2016</b>				
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
<b>Assets 31.12.2016</b>				
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
<b>Net balance 31.12.2016</b>	2.867.196	(5.028.540)	(17.717.810)	(19.879.153)

20. Other issues

Revenues of International Air Navigation Services

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

Court Proceedings

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

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 Egilsstaðir Airport are valid for an indefinite period. Registered landing area or other airports including airports for scheduled flights are valid for an indefinite period.

Under its operating license the Company is required to respect and meet all obligations within the range of responsibilities and the operational area of the airport, the runways and terminal at Keflavik Airport which the Icelandic government has undertaken, and must 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 liaison 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 other than Keflavik Airport. The company works with the Ministry of the Interior and prepares a proposal for maintenance and construction which the company believes is necessary 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 2017 the amount for construction projects was in total ISK 246,9 million (2016: ISK 349,9 million).

Service agreements for operations

On the basis of the service agreement with the Ministry of the Interior the Company provides navigation services in local airspace operations, maintenance 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 1.000.000.000.

The Company's legally binding insurance is exempt from liability due to acts of terrorism. The Company has procured insurance against terrorism covering damage in air navigation services and airports amounting to approximately USD 250.000.000 and USD 15.000.000 at Keflavik Airport.

The Company has purchased an indemnity 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 15th, 2018.

24. Consolidated ratios

From Statement of Comprehensive Income:		2017	2016
<b>Profitability</b>			
Earnings before interests, taxes, depreciation and amortisation (EBITDA) .....		9.853.236	8.856.519
a) Contribution margin on operation .....		25,95%	26,83%
b) Profit margin on operating revenue .....		10,40%	20,97%
c) Earning per share (EPS) .....		0,71	1,24
d) Return on equity .....		13,60%	29,34%
a) EBITDA/total revenue			b) Net income/total revenue
c) Earnings per share (EPS)			d) Net income/average equity
From Balance sheet:		31.12.2017	31.12.2016
<b>Activity ratios</b>			
e) Investment in inventories .....		0,01	0,02
f) Rate of return on assets .....		0,58	0,63
g) Inventory turnover .....		10,96	11,20
h) Receivables turnover .....		10,43	15,50
e) Inventory/revenues			g) Cost of goods sold/average inventory
f) Net income/average total assets			h) Reveneus/average accounts receivables
<b>Liquidity ratios</b>			
i) Quick or acid-test ratio .....		0,88	1,42
j) Current ratio .....		0,92	1,45
k) Net Interest Bearing Debts/EBITDA .....		3,11	2,03
i) (Current assets - inventories)/average total assets			j) Current assets/current liabilities
<b>Coverage ratios</b>			
l) Equity ratio .....		42,74%	45,68%
m) Internal value of shares .....		5,55	4,84
l) Shareholders equity/total assets			m) Shareholders equity/capital stock
From Cash flow:		2017	2016
n) Net cash debt coverage .....		0,08	0,15
o) Quality of sales .....		0,80	0,85
p) Quality of net profit .....		0,76	1,13
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		2017	2016
Cost of goods sold/income from retail division .....		15,39%	16,51%
Salaries and related expenses/operating revenues .....		44,09%	42,00%
Administrative expenses/operating revenues .....		1,65%	2,22%
Other operating expenses/operating revenues .....		12,93%	12,44%
Depreciation and amortization/operating revenue .....		8,77%	7,68%
Operating expenses/operating revenues		82,82%	80,85%

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 Eiriksson 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.

Comprehensive income from Domestic airports is to a large extent based on a service agreement between the government and Isavia ohf. The operating profit in this segment reporting does not take into account the cost of capital from what Isavia has invested in non current assets that are used for the Domestic airports operation. From the year 2011 the aggregated operating profit before financial income and expenses has been ISK 28.7 million while Isavia estimated aggregated cost of capital because of these investments are about ISK 281,6 million. Therefore operating profit from the operation of the Domestic Airports in the years of 2011 – 2017 is considerably too low to cover the cost of capital from the investments in the current assets.

Segment information year 2017

Revenue:		Air- navigation	Domestic Airports	Keflavik Airport	Duty Free Store	Others	Eliminations	Consolidated
External revenue .....		6.766.500	2.391.179	16.305.631	12.256.870	254.114		37.974.293
Inter-segment revenue .....		735.691	66.061	4.255.892	0	655.589	(5.713.232)	0
Total revenue .....		7.502.190	2.457.240	20.561.523	12.256.870	909.703	(5.713.232)	37.974.293
<b>Comprehensive income:</b>								
Operating profit .....		608.307	104.233	5.745.106	241.244	(16.058)	(159.692)	6.523.140
Net financial income / (expenses) .....								(1.606.816)
Profit before taxes .....								4.916.324
Total comprehensive income .....								3.948.586
<b>Balance sheet:</b>								
Non-current assets .....		3.894.852	1.226.600	52.686.490	412.152	2.037.157	(564.293)	59.692.959
Other assets unallocated to segments .....								12.855.335
Total assets .....								72.548.293
Total liabilities .....								41.542.814
<b>Other information:</b>								
Capital additions .....		586.158	411.516	13.055.694	157.419	385.252		14.596.038
Depreciation and amortization .....		307.669	91.221	2.780.835	95.834	54.537		3.330.096

Segment information year 2016

Revenue:		Air- navigation	Domestic Airports	Keflavik Airport	Duty Free Store	Others	Eliminations	Consolidated
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	655.822	(5.115.829)	0
Total revenue .....		6.401.835	2.192.609	17.121.507	11.410.034	998.162	(5.115.829)	33.008.318
<b>Comprehensive income:</b>								
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
<b>Balance sheet:</b>								
Non-current assets .....		3.652.045	906.997	42.839.059	350.568	1.281.920	(564.293)	48.466.297
Other assets unallocated to segments .....								10.762.737
Total assets .....								59.229.033
Total liabilities .....								32.172.170
<b>Other information:</b>								
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



