ANNUAL REPORT 2012

The annual report of Isavia for 2012 is partly in electronic form. In this way, the company wants to minimise printed versions and be more environmentally friendly.

The electronic part of the annual report is accessible at the web address: ***www.isavia.is/annualreport***

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ADDRESS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Isavia has chosen safety, service and co-operation as its core values. The development of the company over the past three years, following the merger of Flugstodir and Keflavik Airport, has been a success, and achievements have been in line with expectations. We continue to ensure aviation safety by co-operating with, and providing services to, both the authorities and all those who use Iceland's airport facilities or air navigation services. Employees and management have worked together under the slogan: "We serve aviation". We have saved a significant amount by containing costs.

Isavia's operation is divided into three parts: the operation at Keflavik Airport, international flight services and services to domestic flights. Increases in the number of aircraft passengers through Keflavik Airport continue to demand an expanded level of service; international flight services have grown stronger slowly but surely, while domestic services are struggling.

The Board of Directors elected during the company's most recent Annual General Meeting, on 3 May 2012, consists of Arnbjorg Sveinsdottir, Municipal Representative and alternate Member of Parliament; Asta Rut Jonasdottir, Business Administrator; Jon Nordfjord, Managing Director; Ragnar Oskarsson, Upper Secondary School Teacher; and Thorolfur Arnason, Engineer.

The alternates elected at the meeting were Hjortur M. Gudbjartsson, Johanna Harpa Arnadottir, Olafur Sveinsson, Sigrun Palsdottir and Sigurbjorn Trausti Vilhjalmsson. Arngrimur Johannsson and Jonas Bjarnason retired as alternates and were thanked for all their hard work on behalf of the company.

The Board allocated tasks among themselves so that Thorolfur Arnason was re-elected as Chairman and Ragnar Oskarsson likewise as Vice -Chairman.

The Board held 13 meetings during 2012 and has held 13 meetings since the most recent Annual General Meeting. Meetings are now held regularly on the first Thursday of each month. All alternates were asked to attend the December meeting, at which the company's operating budget for 2013 was discussed, and also the meeting on 4 April 2013, at which the 2012 annual financial statements were discussed.

The board meetings were held alternatively at Reykjavik Airport and Keflavik Airport. In addition, one meeting was held in Bildudalur on 4 October in accordance with the policy of visiting and holding one to two board meetings every year at one of the company's main operations locations. In Bildudalur, the Board met with the airport's staff and the Westfjords area manager for airports and familiarised themselves with the operation of the airport and the issues that relate to the operation, to construction and to investments in the airport.

On the way home from Bildudalur, the Board had a stop-over at Gjogur Airport, which is the only gravel-surfaced airport in Iceland used for scheduled flights. In Gjogur, the Board had discussions with airport staff about the operation and also about the challenges involved in running a facility that does not meet the demands made of modern airports.

There has been significant growth in international flights, and records have been broken again and again as regards passenger throughput at Keflavik Airport. The increase in the number of passengers was approximately 13% between years, with just under 2.4 million passengers in 2012, which is approximately 9% more than in the record year 2007. There has been an incredible 44% increase since 2009, which was the worst year of the economic crisis in Iceland. This success has not been automatic. Many people have contributed to marketing the country and to creating the optimal conditions for this achievement. The tourist industry is advancing by leaps and bounds and is often referred to as the economy's principal growth area. Isavia has become one of the most progressive companies in this sector, and even greater efforts are being made in encouraging flight operators to expand their operations at Keflavik International Airport and to take advantage of the award-winning services that have been developed there. It is estimated that passenger figures through Keflavik Airport will reach approximately 2.7 million this year.

Efforts to increase the number of travellers outside the summer season, and to lengthen travel in spring and autumn, have been successful. Five flight operators maintained scheduled flights to Keflavik Airport last winter, and 17 flight operators plan to operate there this summer.

It is quite clear that this increase will involve some growth-related problems that will have to be addressed. The company will be spending approximately ISK 900 million in investments in 2013 on improvements to the Leif Eiriksson Air Terminal in order to meet this significant increase in passengers. The focus will be on maximising the use of facilities and on economisation. The largest project is the reorganisation of the south building of the air terminal to improve services and passenger experience. Once the project has been completed, there will be much better sanitary facilities, speedier processing in passport control, more seating in waiting areas, a new Duty-Free Store and more restaurants. In addition, we will embark on costly actions to increase the capacity of luggage systems and security scanning equipment. There are also plans to increase the number of self-service check-in stations, which have increased performance considerably, and to increase the number of departure gates so that a greater number of aircraft can be processed during peak times. Passengers will then be transported by bus to aircraft near the terminal building.

However, these measures will only meet the needs of increases this summer and the next, and are an indication of what needs to be done to further increase future capacity. Investments in connection with Keflavik Airport during this year and the next amount to a total of ISK 2.7bn, but the substantial tourist influx expected in Iceland over the next few years will require significant increases in both aircraft parking and departure gates in the airport. This will prove rather more costly.

The big question is how Isavia is going to be able to meet the challenges inherent in the approximately 10% annual increase of passengers through Keflavik Airport over the next four to five years. Preparations for the expansion of the air terminal, therefore, have already been initiated. In addition, investments in runway resurfacing are planned. Such resurfacing is inevitable over the next few years, and the project will cost up to ISK 4bn, or an average of ISK 500m per year over the next eight years.

The report from 2011 described projects that Keflavik Airport has initiated to integrate airport staff jobs, as is the norm in most of the airports in countries with which we compare ourselves. The concept integrates all aspects of airport services, with no distinction between the individual roles of fire-fighters, heavy equipment operators, etc. Now all are referred to as airfield services personnel. The airport services are, in fact, still in different buildings, although the plan is to build a new services building where all equipment, service areas and staff will be under the same roof. The size of the building will be approximately 4,000 square metres and will be located near the centre of the airport, south of the Leif Eiriksson Air Terminal. Construction will begin later this year, and the estimated cost of the project is around ISK 800m.

Work will continue on the preparation of new zoning plans for Keflavik Airport in accordance with the polices established and presented last summer and which the company's Board and Planning Committee have approved.

On the whole, the results of 2012 are quite good. The group's income was ISK 18.4bn. Profits before depreciation and financial items are approximately ISK 3.8bn, or around 20.8% of income, and profits after taxes amount to ISK 738m. The fund creation in the operation is sufficient to pay the company's non-current liabilities as well as to cover the projects the company considers necessary to initiate during the year. The company had approximately ISK 3bn in funds at the end of 2012. The company, therefore, holds a strong position in comparison to the majority of companies in Iceland, although its commitments for developments at Keflavik Airport are considerable and therefore require extremely positive results in the future.

The domestic airport system, operated by the company in accordance with a service agreement with the Ministry of the Interior, continues to struggle. Appropriations have continued to decrease, and services have had to be reduced. A matter of particular concern is that investments in the renovation of the airport system are at a historic low. This cannot be endured for very long. Service charge increases during the year, which were intended to provide additional income, have not been effective due to decreasing numbers of passengers. Moreover, increasingly onerous obligations placed on the operation have increased costs and, in the present situation, the increased flight safety requirements that the company must implement could prove difficult for airport operation and the decidedly weak operation of airlines operating in the domestic market. The economic downturn that threatens services in domestic airports is not only restricted to tight budgetary appropriations from shared national funds for their operation and maintenance, but also relates to the uncertainties surrounding the location of the central hub of the domestic flight system, i.e. Reykjavik Airport. There are, however, brighter times ahead in light of the recent agreement between the Mayor of Reykjavik and the Minister of the Interior for improvements to passenger terminal facilities and more. These will enable Isavia to operate the airport as it should be operated and to embark on very basic developments for modern services that will benefit users.

The operation of the domestic air service, however, will always continue to be a struggle. Isavia will do its best with limited funding and, as always, seek to provide the best services possible with minimum expense. It must be kept in mind, however, that if the airports and their equipment are not maintained, they will be closed down and that this will mean the end of domestic flight services. As has been previously noted, this is not really Isavia's problem, as it is in the hands of the transport authorities to determine the level of services in the airport system and to provide funding for such services.

The integration of airport staff jobs has also been adopted at the airports in Reykjavik and Akureyri and has in fact been the norm in most other airports in Iceland for some time. The economisation that has been achieved mostly balances out the inevitable cost increase of new requirements for increased capability in fire and rescue service at scheduled flight airports.

Air traffic managed by the international aviation services over Iceland in 2012 was similar to the year before, or approximately 108,000 flights. The majority, 77,000 flights, are overflights that the company services on the basis of an agreement with the International Civil Aviation Organisation. The company's income from these operations amounts to approximately ISK 3.3bn annually and is paid in British pounds (GBP). During such times of foreign exchange shortage, it is vital to bring this income into the national economy. The company participates in international co-operation in air navigation, and its employees are active participants in many international committees and councils in the field. Increased co-operation with our neighbours in Greenland and the Faroe Islands is planned in the field of technology development and training, something that will strengthen the company's position as regards air navigation services in the North Atlantic.

We plan to enlarge the air navigation services centre at Reykjavik Airport, with the aim of combining all the division's operations in one location and strengthening it for the future. The merger will make the company better prepared to tackle changes to the organisational structure of the air navigation services and to take the initiative in the adoption of technological innovations.

Isavia gained full ownership of the company Tern Systems in 2012 when it purchased the 25% shareholding owned by the University of Iceland. Tern Systems is a high-tech company in software development for air navigation services and has been engaged in extensive work for Isavia over the past few years. There are plenty of opportunities for the sale of Tern products in international markets with the support and strength inherent in its co-operation with the parent company. Noteworthy success has already been achieved with the sale of equipment to South Korea, Indonesia, Spain and Morocco.

Tern System's history showcases the fact that it is human resources and not the technology that makes a company successful. Isavia and its subsidiaries hire highly qualified employees who are at the forefront of their fields.

Isavia's staff turnover is fairly low. The total turnover in 2012 was just under 8%, while the actual turnover was 4% when those who retired or those who were dismissed are not included. The average length of service was 11.9 years, and the average age of employees is 45 years. There were a total of 657 employees at year-end, 159 of whom were women, as many of the positions in the company have traditionally been men's jobs. Although women are generally encouraged to apply for advertised positions in the company, little progress has been made in improving the proportion of female employees. If the number of applications the company recieves is anything to go by, then Isavia is becoming a well-known and desirable place of work. The company received a total of 1,800 job applications in 2012, approximately 1,000 of which were for advertised positions. The increase in general applications between years was just over 34%.

We pay significant attention to the education and training of employees and, during the year, 644 employees attended training programmes at the Isavia Academy, for a total of 40,600 working hours. That is equivalent to having approximately 20 employees in continual training. The company is also responsible for extensive training programmes for other companies and individuals who work in or are authorised to enter airport security zones.

We also place great importance on the good health of our employees, a safe and healthy working environment, ensuring that employees know the requirements made to occupational safety and health, and focusing on risk assessments and preventative measures.

In closing, I would like to reiterate that Isavia is the second largest tourist service company in Iceland and, as such, is at the forefront of the great advances currently taking place in the tourist industry. The company sees considerable opportunities in the utilisation of Iceland's airport facilities to attract an even greater number of aircraft operators and passengers and will do everything in its power to realise these opportunities.

I wish to thank the Board of Directors, the Managing Director, Bjorn Oli Hauksson, and the entire staff for their excellent work and collaboration over the past operating year.

On behalf of the Board of Isavia,
Thorolfur Arnason, Chairman of the Board

Isavia's Board of Directors, from left to right: Thorolfur Arnason, Ragnar Oskarsson, Jon Nordfjord, Asta Rut Jonasdottir, Bjorn Oli Hauksson and Arnbjorg Sveinsdottir.

DIVISIONS

The **Air Navigations Services Division** provides Icelandic and foreign aircraft with air traffic and air navigation services on domestic and international routes over the North Atlantic Ocean. The Icelandic control area is one of the largest in the world, or approximately 5.4 million square kilometres.

The Airport and Infrastructure Division conducts the operation and maintenance of all airports in the country except for Keflavik International Airport. This includes runways and buildings, machinery, airfield lighting and aviation security. The infrastructure service of the division provides specialised support to other operating divisions concerning facilities construction and maintenance.

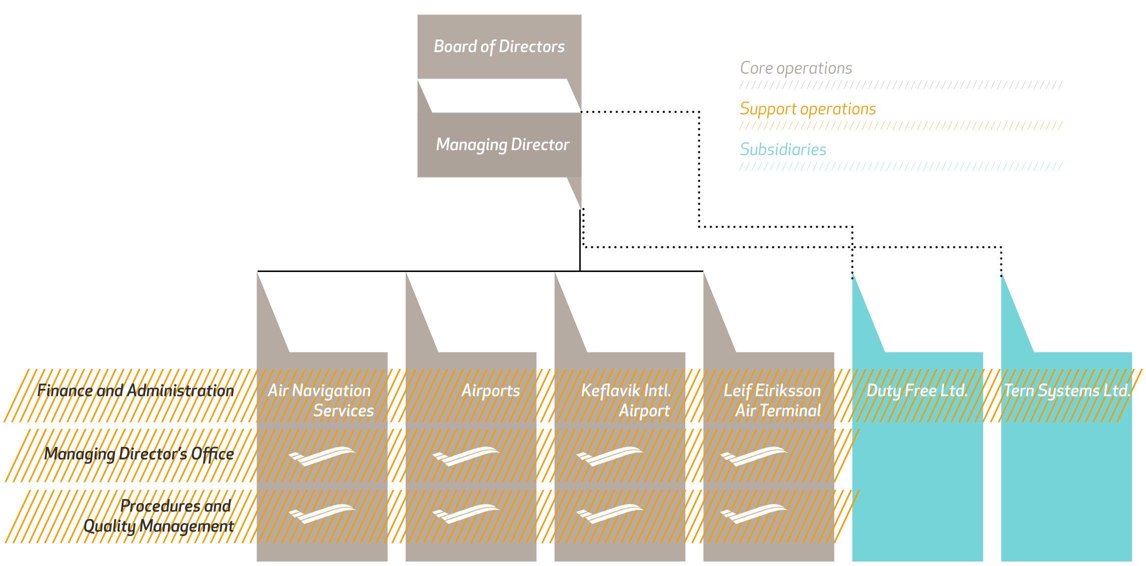
Keflavik International Airport conducts the operation, maintenance, monitoring and cleaning of aircraft operating areas, the airport's visual navigation equipment and oil separators, bird and animal control, the operation of jet aircraft arresting gear, apron management and slot allocation together with vehicle maintenance and fire and rescue services.

The Leif Eiriksson Air Terminal is responsible for the operation, maintenance and development of the Keflavik International Airport terminal, including the operation of stores offering tax-free goods in the airport area, providing support to service providers in the air terminal and aviation security as well as services in connection with aircraft operation and other activities that are required within the airport security-restricted area.

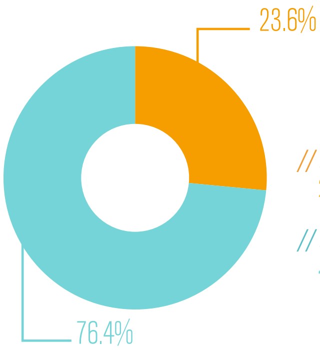
The Finance and Administration Division operates a range of services across all the operating units of the company. The division includes office, financial and personnel services, business development, and IT services. The division supervises the accounting and finances of the company, and administers human resources, training and education, industrial safety, wage issues and general personnel issues. Finance and Administration is also responsible for marketing and company promotion.

The Director's Office provides support to the Board of Directors, the Managing Director and operating divisions. The office handles projects involving policy formulation and co-ordination of the activities of operating divisions in the fields of legal affairs, government relations, contracting and international research and development. The Office oversees co-ordination and policy-making concerning airport services and security, zoning and development and municipality relations and provides administrative support for the Board of Directors of Isavia, the Duty-Free Store and Tern Systems.
The Director's Office is also responsible for service contracts, defence programmes, media relations and management of company archives.

The Standards and Quality Management Department operates in connection with the Director's Office and handles the overall planning and co-ordination of the company's safety and quality issues. The department ensures that system descriptions and procedures are in compliance with system requirements and handles active monitoring and deviation correction. Environmental issues are also handled by the Standards and Quality Management Department.



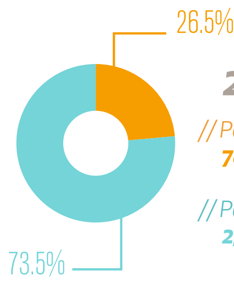
FLIGHT STATISTICS



2012

// Passengers on domestic flights
751,505

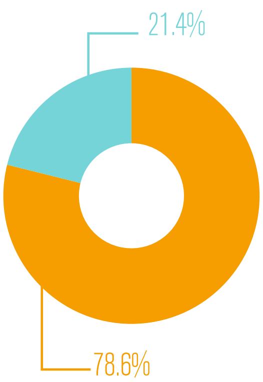
// Passengers on international flights
2,435,210



2011

// Passengers on domestic flights
781,357

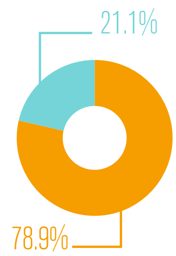
// Passengers on international flights
2,165,423



2012

// Domestic aircraft movements
113,408

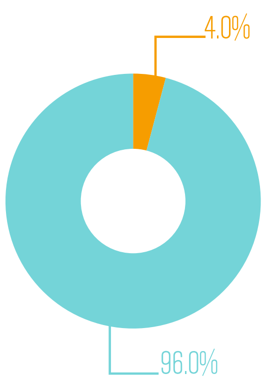
// International aircraft movements
30,902



2011

// Domestic aircraft movements
107,858

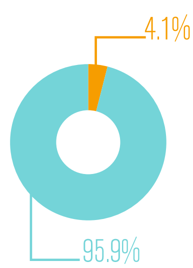
// International aircraft movements
28,856



2012

// Domestic cargo and mail
1,681

// International cargo and mail
40,566

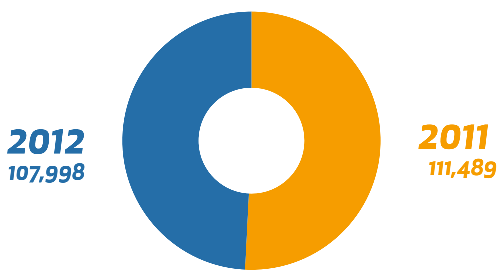


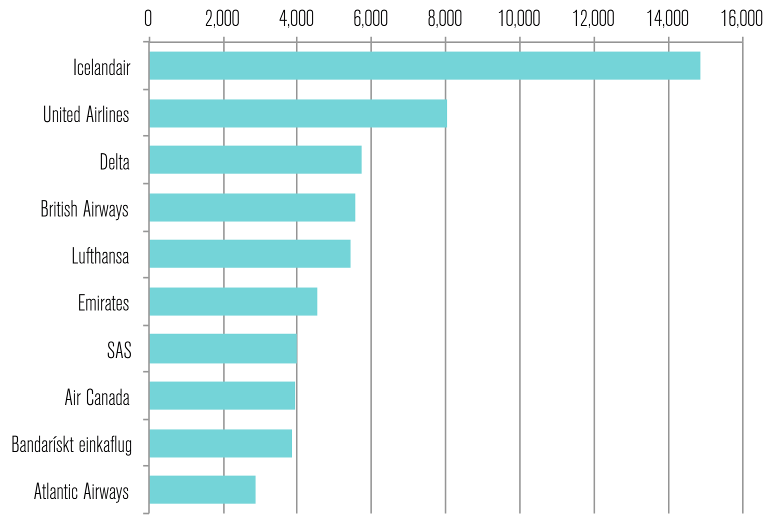
2011

// Domestic cargo and mail
1,641

// International cargo and mail
38,191

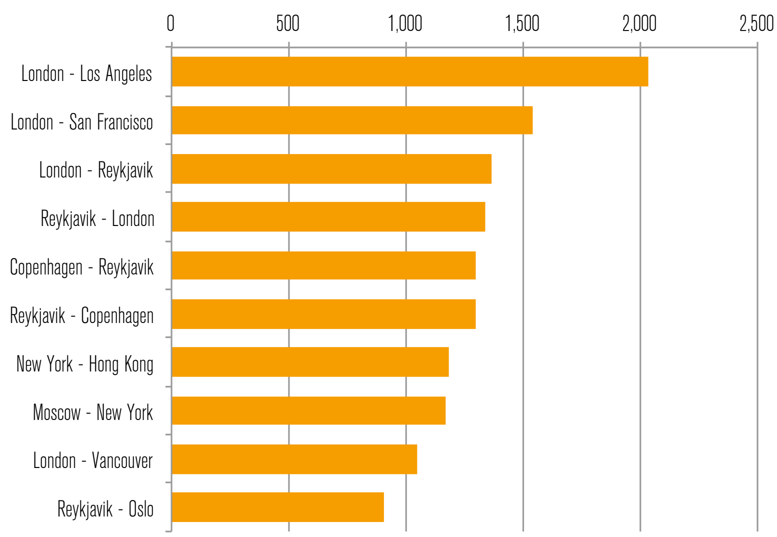
No. of flights in the Icelandic air traffic control area





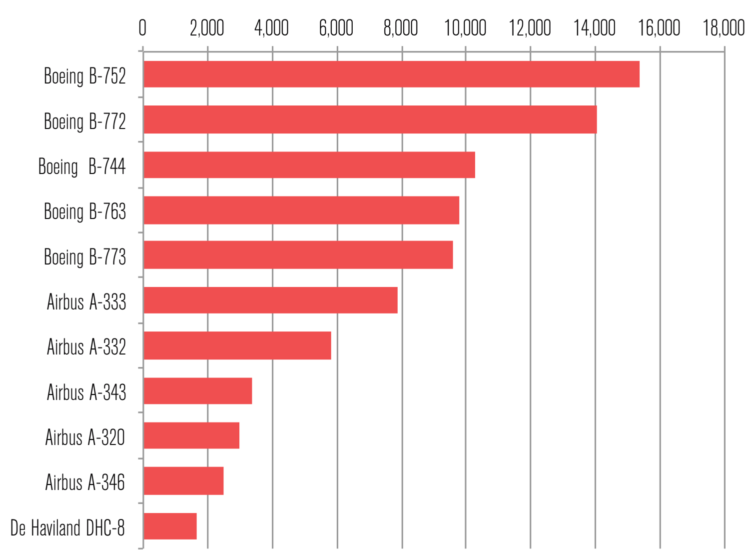
Main airlines in the Icelandic air traffic control area

// Number of flights



Main city pairs in the Icelandic air traffic control area

// Number of flights



Main aircraft types in the Icelandic air traffic control area

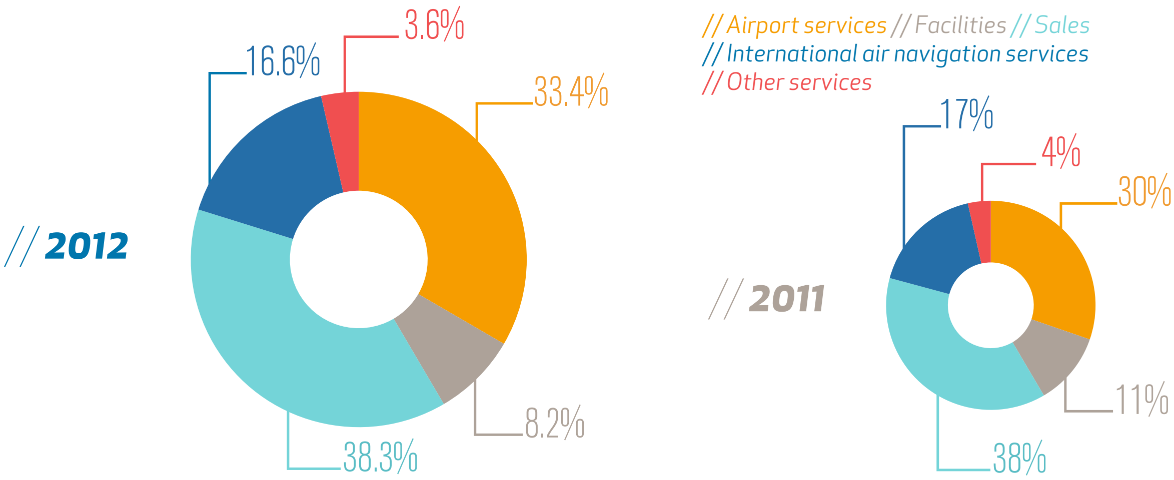
// Number of flights

KEY FIGURES

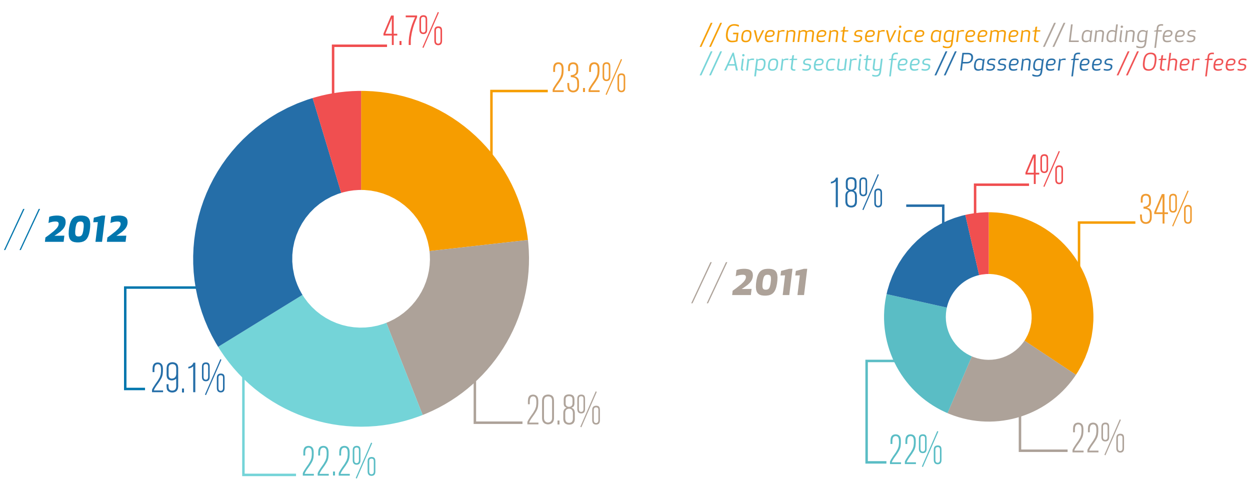
FROM THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2012	2011	2010
Revenue	18,397	16,511	14,136
EBITDA	3,823	3,653	3,045
EBIT	2,396	2,302	1,723
Financial income/expenses	-1,465	-1,542	843
Profit before taxes	932	760	2,567
Operating profits	738	604	2,125
FROM THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Property, plant and equipment	21,784	21,615	22,017
Assets	33,390	32,520	32,069
Equity	11,647	10,917	10,302
Interest bearing liabilities	17,397	17,728	18,348
Current ratio	1.26	1.21	1.01
FROM THE CONSOLIDATED STATEMENT OF CASH FLOWS			
Operating activities	3,535	3,545	1,590
Investing activities	-1,730	-725	-715
Financing activities	-1,362	-1,721	-1,247
Cash and cash equivalents at end of period	3,026	2,609	1,506
FINANCIAL INDICATORS			
Contribution margin on operation	21%	22%	22%
Profit margin on operating revenue	4%	4%	15%
Rate of return on assets	0.56	0.51	0.43
Return on equity	7%	6%	23%
Earnings per share	13%	11%	38%
Equity ratio	35%	34%	32%
Average number of positions	790	729	707

Amounts in ISK millions

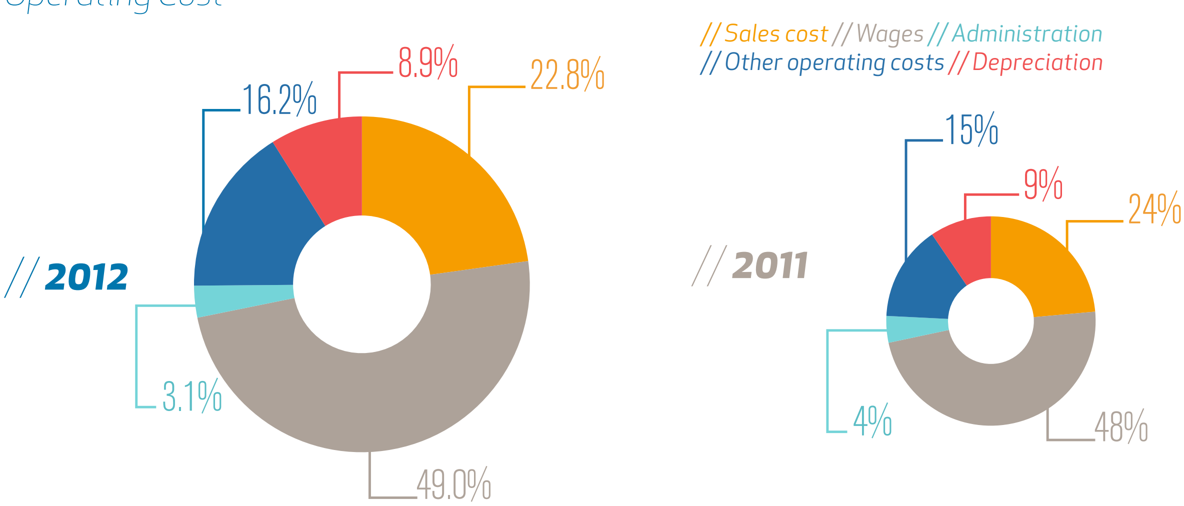
Total Income



Airport Services



Operating Cost



OPERATIONS AND PERFORMANCE

Isavia's total income has increased by 11.4% between years, rising from ISK 16,511m to ISK 18,397m in 2012. The greatest increase was in airport services, or approximately 21%; retail income increased by 13%, and income from air navigation services increased by just over 7%. Isavia's income from the service agreement with the Ministry of the Interior decreased by 17% between years.

The number of passengers through Keflavik International Airport rose by 12.7% in total during the year, whereof there was an approximately 15% increase in departure passengers. The increase in the number of passengers resulted in an increase in both passenger income and retail and property income for the company. The total number of passengers throughputting other airports operated by the company decreased by 4%.

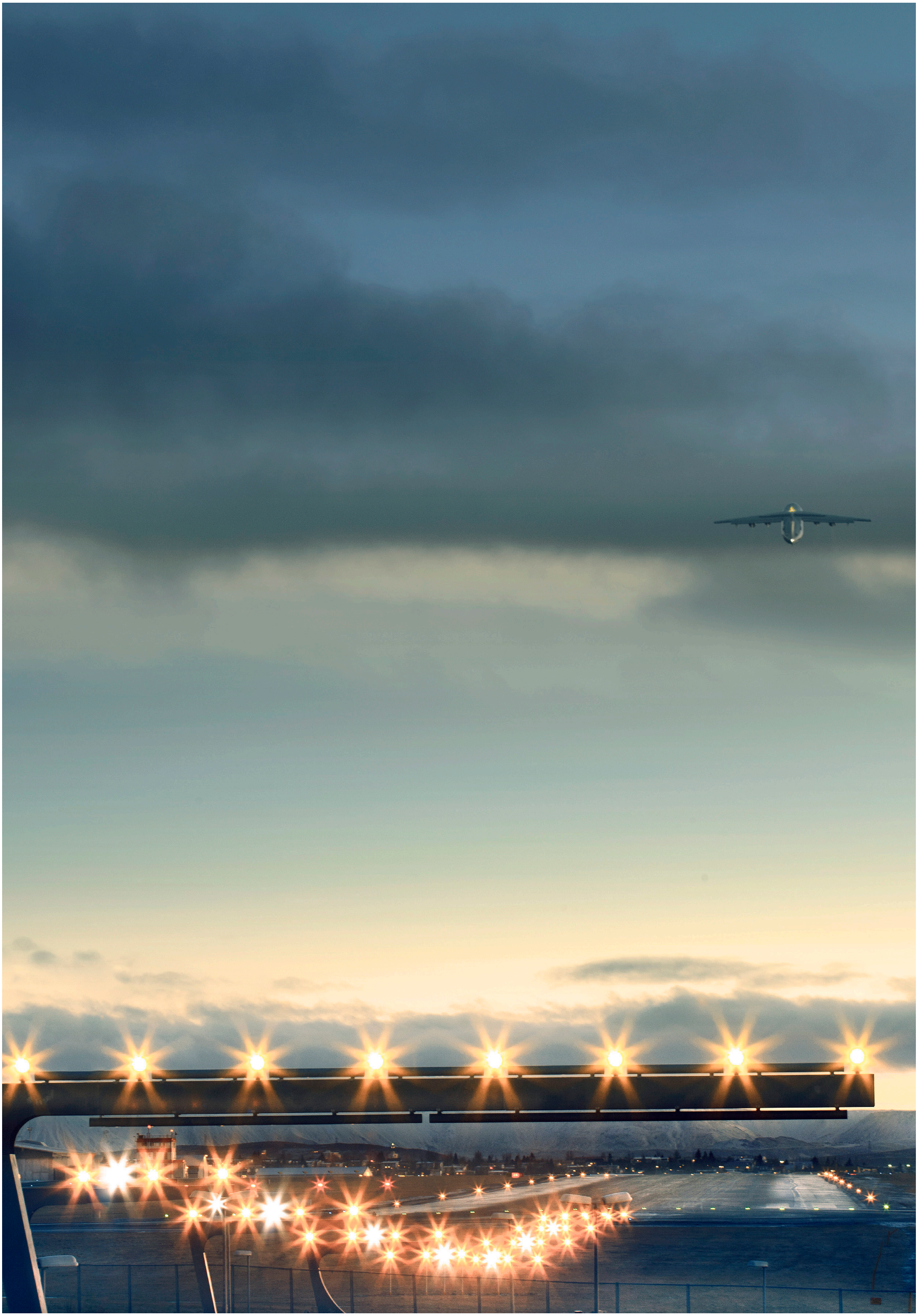
Operating profits in 2012 amounted to ISK 2,396m, as compared to ISK 2,302m in 2011. Operating costs increased by 12.6% and are for the most part attributable to increases in the number of employees. The average number of positions in the company increased due to increased scope of operations by around 8.4%, rising from 729 in 2011 to 790 in 2012. Other operating costs have also increased substantially, the most prominent being substantial costs due to difficult conditions during the winter of 2012 and a 9% increase in the cost price of sold goods as anticipated by the company. The Duty-Free Store now pays 10% of the alcohol fee which is in effect at each time and 40% of the tobacco fee. This, however, only applies to goods sold in the arrivals shop. In 2012, the Duty-Free Store generated approximately ISK 307m in tobacco and alcohol fees for the State Treasury, as compared to ISK 281m in 2011.

DIVISION OF INCOME:

	2012	2011
Air navigation services	3,602	3,350
Airport service	5,671	4,671
Retail income	7,026	6,205
Service agreement with the Ministry of the Interior	1,426	1,717
Other income	671	569

* Amounts in ISK millions

The total comprehensive income for 2012 is ISK 738m, which is an increase of approximately ISK 134m from 2011. The book value of the total assets of Isavia at year-end 2012 was ISK 33,390m. Fixed assets were ISK 28,073m thereof. The company's net liabilities have decreased by ISK 553m between years, and its equity ratio at year-end was 34.9%, as opposed to 24.6% when the company was established in 2010. Cash from operating activities was similar between years, while the company's investments have increased substantially, with investments amounting to ISK 1.4bn in 2012. The main projects were improvements to the Leif Eiriksson Terminal, renewal and increase in the amount of equipment used in check-ins and flight security, together with purchases of airport equipment for Keflavik Airport, Akureyri Airport and Egilsstadir Airport. Costs due to electricity conversions at Keflavik Airport were also significant, as were those associated with the renewal and updates of air navigation equipment. Isavia purchased the University's shareholding in Tern Systems and is currently the sole owner of the company.



INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF ISAVIA LTD.

We have audited the accompanying Consolidated Financial Statements of Isavia Ltd., which comprise Statement of Financial Position as of December 31st 2012. Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of Isavia Ltd. as of December 31st 2012, 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.

Anna B Geirfinnsd

Anna Birgitta Geirfinnsdóttir
State Authorized Public Accountant

Guðmundur Kjartansson
State Authorized Public Accountant

STATEMENT BY THE BOARD OF DIRECTORS AND MANAGING DIRECTOR

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

The Consolidated Financial Statements for the year 2012 is prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

According to the Consolidated Statements of Comprehensive Income, the operating revenues of the Company amounted to ISK 18,397 million. Total comprehensive income for the year amounted to ISK 738 million. According to the Consolidated Statements of Financial Position, assets amount to ISK 33,390 million, the year's end book value of equity is ISK 11,647 million and the Company's equity ratio is 34.88%.

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

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

The Board of Directors and the Managing Director hereby confirm the Consolidated Financial Statements for the year 2012.

Reykjavik, 4 April 2013

Board of Directors

Þórólfur Árnason
Chairman of the Board

Arnbjörg Sveinsdóttir

Jón Norðfjörð

Ásta Rut Jónasdóttir

Ragnar Óskarsson

Managing director

Björn Óli Hauksson

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME 2012

	Notes	Consolidation 2012	2011
Operating revenues	4	18,396,853	16,511,047
Cost of goods sold		(3,645,670)	(3,349,133)
Salaries and related expenses	5	(7,844,294)	(6,880,925)
Administrative expenses		(489,968)	(537,678)
Other operating expenses		(2,594,122)	(2,090,601)
Depreciation and amortization	8.9	(1,426,327)	(1,350,682)
Operating profit		2,396,473	2,302,028
Financial income	6	221,482	181,890
Financial expenses	6	(730,672)	(779,770)
Net gain arising on financial assets and liabilities	6	(955,030)	(944,456)
Profit before taxes		932,253	759,692
Income tax	7	(194,306)	(155,639)
Total comprehensive income for the year		737,947	604,053
Total comprehensive income attributable to:			
Owners of the company		737,947	605,874
Non-controlling interests		0	(1,820)
		737,947	604,053

Amounts are in ISK thousands

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Assets		**Consolidation**	
	Notes	**31.12.2012**	**01.01.2012**
Non-current assets			
Property, plant and equipment	8	21,784,112	21,614,941
Intangible assets	9	5,885,777	6,052,271
Bonds and other long term assets	11	402,972	146,487
Deferred tax assets	18	0	82,287
		28,072,861	27,895,986
Current assets			
Inventories	12	521,164	399,413
Accounts receivables	13	1,262,148	1,178,826
Government treasury		42,624	0
Current maturities of long term assets	13	69,376	68,434
Other receivables	13	396,221	368,374
Bank balances and cash	13	3,025,735	2,608,985
		5,317,268	4,624,032
Total assets		33,390,129	32,520,018

Equity and liabilities			
Equity			
Share capital	14	5,589,063	5,589,063
Statutory reserves		2,483,798	2,483,798
Revaluation reserves		51,120	52,466
Retained earnings		3,523,216	2,783,924
Equity attributable to owners of the company		11,647,198	10,909,251
Non-controlling interests		0	7,435
Total equity		11,647,198	10,916,686
Non-current liabilities			
Loans from credit institutions	15	17,394,991	17,723,943
Obligations under finance leases	16	2,152	3,900
Deferred tax liabilities	18	114,139	38,519
		17,511,281	17,766,362
Current liabilities			
Accounts payable	19	1,271,036	859,093
Government treasury		0	131,522
Current maturities of non-current liabilities	19	1,409,855	1,355,796
Current tax liabilities	7	36,400	15,520
Other current liabilities	19	1,514,360	1,475,038
		4,231,650	3,836,970
Liabilities		21,742,931	21,603,332
Total equity and liabilities		33,390,129	32,520,018

Amounts are in ISK thousands

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Statutory reserves	Revaluation reserves	Retained earnings	Non-controlling interests	Total Equity
Opening balance at 1 January 2011	5,589,063	2,483,798	55,156	2,175,359	(1,144)	10,302,233
	5,589,063	2,483,798	55,156	2,175,359	(1,144)	10,302,233
Transfer to retained earnings	0	0	(2,691)	2,691	0	0
Additional non-controlling interests	0	0	0	0	10,399	10,399
Comprehensive income	0	0	0	605,874	(1,820)	604,053
Balance at 31 December 2011	5,589,063	2,483,798	52,466	2,783,924	7,435	10,916,686
Opening balance at 1 January 2012	5,589,063	2,483,798	52,466	2,783,924	7,435	10,916,686
Transfer to retained earnings	0	0	(1,345)	1,345	0	0
Investments in subsidiaries	0	0	0	0	(7,435)	(7,435)
Comprehensive income	0	0	0	737,947	0	737,947
Balance at 31 December 2012	5,589,063	2,483,798	51,120	3,523,216	0	11,647,198

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

Amounts are in ISK thousands

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Consolidation 2012	Consolidation 2011
Cash flows from operating activities			
Operating profit		2,396,473	2,302,028
Depreciation and amortization	8.9	1,426,327	1,350,682
Long term assets expensed	11	54,409	68,631
Gain on disposal of assets		0	5
Operating cash flow before transfer to working capital		3,877,208	3,721,345
Increase in inventories	12	(121,752)	(29,492)
Increase in operating assets		(130,242)	(178,081)
Decrease in operating liabilities		304,566	490,978
Cash generated from operations		3,929,780	4,004,750
Interest earned		370,890	336,920
Finance costs		(749,816)	(796,631)
Income taxes paid		(15,520)	0
Net cash generated from operating activities		3,535,334	3,545,040
Investing activities			
Capitalized development cost		(11,100)	0
Purchases of property, plant and equipment	8	(1,341,848)	(712,063)
Purchases of intangible assets	9	(53,092)	(65,057)
Purchases of bonds		(322,378)	(53,112)
Installments on bonds		18,883	105,328
Investments held to maturity		(20,000)	0
		(1,729,534)	(724,903)
Financing activities			
Repayments of borrowings	15	(1,358,888)	(1,711,985)
Repayments of obligations under finance leases	16	(2,849)	(8,950)
		(1,361,737)	(1,720,935)
Net decrease in cash and cash equivalents		444,063	1,099,201
Cash and cash equivalents at the beginning of the year		2,608,985	1,506,340
Effect of foreign exchange rates		(27,313)	3,443
Cash and cash equivalents at the end of the year		3,025,735	2,608,985

Amounts are in ISK thousands

NOTES

1. General information

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

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

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

2. Summary of Significant Accounting Policies

Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the European Union by the end of the year 2012, new and revised. It is the opinion of the Management that application of new and revised IFRS has not material impact on the financial statements. The Consolidated Financial Statements have not implemented new and revised IFRS in issue but not yet effective.

Basis of preparation

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

Risk management

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

2. Summary of Significant Accounting Policies (continued)

Revenue recognition

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

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

Construction contracts

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

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

Leasing

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

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

Borrowing costs

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

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

Income tax

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

Property, plant and equipment

Property, plant and equipment are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured in a reliable manner. Property, plant and equipment which qualifies for recognition as an asset is initially measured at cost.

The cost of a property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

The depreciable amount of the 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 business agreements, trademarks and 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. Development costs are recognised at cost taking impairment into account. Capitalized development costs are not depreciated.

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

Impairment

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

Inventories

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

Accounts receivables

Accounts receivables are valued at nominal value less an allowance for doubtful accounts. The allowance is deducted from accounts receivable in the balance sheet and does not represent a final write-off.

Long term liabilities

Loans from credit institutions and other non-current liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable. Interest expense is accrued on a periodical basis, based on the principal outstanding and at the interest rate applicable. Borrowing costs are recognised in profit or loss in the year they are incurred.

Accounts payable

Accounts payable are valued at nominal value and accounts payable in other currencies have been booked at the exchange rates prevailing on the balance sheet date.

Provisions

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

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

Financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

Investments held to maturity

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

Loans and receivables

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

2. Summary of Significant Accounting Policies (continued)

Financial assets

Impairment of financial assets

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

Financial liabilities and equity instruments

Financial liabilities

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

Financial liabilities at FVTPL

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

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

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

Other financial liabilities

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

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

4. Revenues

The consolidated composition of revenues, is specified as follows	2012	2011
Revenue from sales	7,039,031	6,218,704
Revenue from services	9,856,979	8,435,016
Revenue from long term assets	1,500,843	1,857,327
	18,396,853	16,511,047

Amounts are in ISK thousands

5. Salaries and related expenses

	2012	2011
Salaries	5,870,535	5,175,672
Pension fund	706,679	613,010
Payroll taxes	507,743	494,983
Salary-related expenses	113,123	73,023
Pension and vacation pay obligation	396,397	375,018
Capitalized employment expenses	(13,466)	(14,458)
Other employee expenses	263,284	163,677
	7,844,294	6,880,925
Average number of employees	790	729

Additional payments because of pension fund obligations is explained in note no. 17. The Company´s total management salaries and benefits for the year 2012 was ISK 73.7 million compared to ISK 64.7 million for the year 2011. The Company´s CEO and Managing director of Fríhöfnin Ltd. and Tern Systems Ltd. salaries is decided by the negotiation committee.

6. Financial income and expenses

Financial income

	2012	2011
Interest on bank deposits	89,931	51,547
Interest revenue on investments held to maturity	16,186	9,844
Other interest revenue	115,365	120,500
	221,482	181,890

Financial expenses

	2012	2011
Interest expense and indexation	(681,058)	(736,446)
Debt collection fee	(48,076)	(41,986)
Interest on late payments	(1,538)	(1,337)
	(730,672)	(779,770)

Net gain (loss) from financial assets and liabilities

	2012	2011
Net exchange rate differences	(955,030)	(944,456)
	(955,030)	(944,456)

7. Income tax

Income tax has been calculated and recorded in the Financial Statements, the amount charged in the Income Statement is ISK 194.3 million. Income tax payable in the year 2013 is ISK 36.4 million.

The effective tax rate is specified as follows:

	2012		2011	
	Amount	%	Amount	%
Profit before taxes	932,253		759,692	
Tax rate	(186,451)	20.0%	(151,938)	20.0%
Other items	(7,855)	-0.8%	(3,701)	-0.5%
Income tax acc. to Statement of Comp. Income	(194,306)	-20.8%	(155,639)	-20.5%

Amounts are in ISK thousands

8. Property, plant and equipment

	Buildings and artwork	Loading bridges and car parks	Fixtures and machinery	Other assets	Total
Cost					
Balance at 1 January 2011	19,308,969	2,311,780	2,166,022	4,532,932	28,319,703
Revaluation		0	0	0	
Additions 2011	10,230	136,305	95,060	458,610	700,206
Disposals 2011	0	0	0	(321)	(321)
Balance at 31 December 2011	19,319,199	2,448,085	2,261,082	4,991,221	29,019,588
Additions 2012	402,460	37,167	135,073	766,941	1,341,641
Balance at 31 December 2012	19,721,659	2,485,252	2,396,155	5,758,162	30,361,229
Accumulated depreciation					
Balance at 1 January 2011	2,811,357	630,798	964,255	1,896,661	6,303,072
Charge for the year 2011	468,182	95,550	150,068	388,073	1,101,873
Disposals 2011	0	0	0	(297)	(297)
Balance at 31 December 2011	3,279,539	726,349	1,114,323	2,284,437	7,404,648
Charge for the year 2012	482,222	94,413	170,376	425,459	1,172,469
Balance at 31 December 2012	3,761,761	820,761	1,284,699	2,709,896	8,577,117
Book value					
Book value 1 January 2012	16,039,660	1,721,736	1,146,760	2,706,784	21,614,941
Book value at year end	15,959,898	1,664,491	1,111,457	3,048,266	21,784,112

Estimated useful lives of fixed assets are as follows:

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

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

Information about the revalued properties in year end:

	31.12.2012	31.12.2010
Revalued book value	127,693	129,990
Impact of the special revaluation	(62,959)	(64,573)
Book value without impact of revaluation	64,735	65,417

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

Consolidation	Assessment value	Insurance value
Buildings and sites	18,942,042	36,461,272
Machinery and equipment, asset insurances		9,904,093
Other insurances		667,322
Halt insurance		4,420,173

The Company has pledged its real estates and sites for its borrowings from credit institutions. Mortgages by the Company with a remaining loan balance of ISK 16.8 billion at year-end 2012 are registered against the fixed assets of the Company of book value of ISK 15.8 billion at the same time. At year-end 2011 mortgages by the Company with a remaining loan balance of ISK 17 billion were registered against the fixed assets of the Company of book value of ISK 15.7 billion at the same time.

Amounts are in ISK thousands

9. Intangible assets

Consolidation	Usage agreement on facilities	Usage agreement on runways	Software	Total
Cost				
Balance at 1 January 2011	477,035	5,706,000	529,041	6,712,076
Additions 2011	0	0	76,934	76,934
Balance at 31 December 2011	477,035	5,706,000	605,975	6,789,010
Additions 2012	0	0	87,363	87,363
Balance at 31 December 2012	477,035	5,706,000	693,338	6,876,373
Amortization				
Balance at 1 January 2011	31,802	380,400	75,727	487,930
Charge for the year 2011	15,901	190,200	42,708	248,809
Balance at 31 December 2011	47,704	570,600	118,435	736,739
Charge for the year 2012	15,901	190,200	47,756	253,857
Balance at 31 December 2012	63,605	760,800	166,191	990,596
Book value				
Book value 1 January 2012	429,331	5,135,400	487,539	6,052,271
Book value at year end	413,430	4,945,200	527,147	5,885,777

Due to the development of software intended for sale on the global market in the coming years, the capitalized development cost amounts to approximately 11 million. Other software is purchased and its estimated lifespan is 3-20 years

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

10. The Consolidation

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

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

11. Bonds and other long term assets

Bonds

	31.12.2012	31.12.2011
Opening balance at the beginning of the year	141,479	208,415
Installments during the year	(18,883)	(105,328)
Additions	300,000	30,000
Price indexation changes	8,341	8,393
Book value at year end	430,937	141,479
Current maturities	(48,460)	(18,900)
	382,476	122,579

Amounts are in ISK thousands

11. Bonds and other long term assets (continued)

Long term receivables

	31.12.2012	31.12.2011
Opening balance at the beginning of the year	73,442	118,961
Additions	22,378	23,112
Charge for the year	(54,409)	(68,631)
Book value at year end	41,411	73,442
Current maturities	(20,916)	(49,534)
	20,495	23,908
Bonds and other long term assets at year end	402,972	146,487

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

12. Inventories

	31.12.2012	31.12.2011
Goods for resale	510,538	390,083
Goods in transit	29,081	22,186
Allowance for old and obsolete inventory	(18,455)	(12,856)
	521,164	399,413
Insurance value of inventories	563,116	563,116

No inventories have been pledged at year end 2012.

13. Other financial assets

Accounts receivables

	31.12.2012	31.12.2011
Domestic receivables	1,032,553	1,020,700
Foreign receivables	260,972	173,030
Income not invoiced	9,205	3,503
Allowances for doubtful accounts	(40,582)	(18,407)
	1,262,148	1,178,826

Changes in the allowance for doubtful accounts:

	31.12.2012	31.12.2011
At the beginning of the year	(18,407)	(25,094)
Allowance for doubtful accounts	(23,738)	(1,212)
Impairment loss recognised on receivables	1,563	7,899
At year end	(40,582)	(18,407)

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

Amounts are in ISK thousands

13. Other financial assets (continued)

Other receivables

	31.12.2012	31.12.2011
Value added tax, receivables	134,187	139,482
Prepaid expenses	76,014	29,250
Capital income tax	23,992	34,300
Accrued interest, receivables	11,037	8,088
Prepaid salaries	47,603	47,903
Other receivables	103,388	109,352
	396,221	368,374

Current maturities of long term receivables

	31.12.2012	31.12.2011
Bonds	48,460	18,900
Other long term receivables	20,916	49,534
	69,376	68,434

Bank balances and cash

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

	31.12.2012	31.12.2011
Bank balances in ISK	2,205,430	2,130,778
Bank balances in foreign currencies	817,142	471,432
Cash in ISK	3,162	6,775
	3,025,735	2,608,985

14. Equity

Share capital is specified as follows:

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

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

15. Long term borrowings

	Loans from credit institutions	
	31.12.2012	31.12.2011
Debts in CHF	4,058,339	3,998,789
Debts in EUR	5,170,182	3,761,118
Debts in GBP	1,780,441	1,718,562
Debts in JPY	1,295,148	1,456,357
Debts in SEK	790,437	754,872
Debts in USD	3,638,736	5,280,644
Debts in ISK	2,069,412	2,106,490
	18,802,694	19,076,832
Amount due for settlement within 12 months	(1,407,703)	(1,352,890)
Non-current liabilities at year end	17,394,991	17,723,943

Installments of non-current liabilities are specified as follows:

	Loans from credit institutions	
	31.12.2012	31.12.2011
Current maturities	1,407,703	1,352,890
Installments in 2014	1,396,099	1,330,976
Installments in 2015	1,371,950	1,320,215
Installments in 2016	1,355,474	1,297,514
Installments in 2017	1,202,623	1,282,144
Installments later	12,068,845	12,493,094
	18,802,694	19,076,832

Amounts are in ISK thousands

16. Obligations under finance leases

	Lease payments not due		Present value of minimum lease payments	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Amounts payable within one year	2,237	2,898	2,152	2,906
Amounts payable later	2,180	4,172	2,152	3,900
	4,416	7,070	4,303	6,807
Future finance charges	(113)	(264)		
Present value of lease obligation	4,303	6,807		

17. Retirement benefit obligation

Isavia Ltd. is responsible for the pension fund obligation arising in excess of total premium related to their employees each year. The Company is not responsible for total retirement benefit obligations for its employees that belong to the B part of The Pension Fund for State Employees but only additional payments each year so the retirement benefit obligations for employee will be met. In the year 2012 the total amount charged through profit or loss amounted to ISK 366.8 million, including additonal contribution for the the years 2007 - 2011 amounted to ISK 166.4 million arising from an agreement that Flugstodir Ltd. and Keflavik International Airport Ltd. made with members of the Icelandic Air Traffic Controller Association. In the year 2011 the total amount charged through profit and loss account amounted ISK 390.6 million including a contribution of ISK 226.8 million for the years 2007 - 2011 arising from the agreement Flugstodir Ltd. made to members of the Icelandic Air Traffic Controller Association.

18. Deferred tax liability

	Deferred tax assets	Deferred tax liabilities
Opening balance at 1 January 2011	236,848	(32,875)
Tax liabilities of Flugfjarskipti Ltd.	(20,087)	0
Calculated income tax for the year 2011	(134,474)	(21,165)
Income tax payable for the year 2012	0	15,520
Balance at 31.12.2011	82,287	(38,519)
Calculated income tax for the year 2012	0	(34,830)
Income tax payable for the year 2013	(159,476)	36,400
Deferred tax assets from Isavia (parent company) to deferred tax liability	77,189	(77,189)
Balance at 31.12.2012	0	(114,139)

Deferred tax balances consist of the following account balances

	Deferred tax liabilities 31.12.2012	Deferred tax liabilities 31.12.2011	Defered tax assets 31.12.2011
Property, plant and equipment	(1,012,532)	(32,302)	(1,025,539)
Current assets	73,730	0	85,327
Other items	187,007	(6,217)	28,497
Tax loss carried forward	637,656	0	994,002
	(114,139)	(38,519)	82,287

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

Available for the years 2013 through 2016	18,170
Available to the year 2017	167,010
Available to the year 2018	3,296,248
Available to the year 2019	23,596
Available to the year 2020	11,112
	3,516,137

Amounts are in ISK thousands

19. Other financial liabilities

Accounts payable

	31.12.2012	31.12.2011
Domestic accounts payable	702,865	603,532
Accounts payable - Joint finance agreement	355,786	134,721
Foreign accounts payable	212,385	120,841
	1,271,036	859,093

Current maturities of long-term liabilities

	31.12.2012	31.12.2011
Loans from credit institutions	1,407,703	1,352,890
Obligation under finance leases	2,152	2,906
	1,409,855	1,355,796

Other current liabilities

	31.12.2012	31.12.2011
Value added tax, payable	20,964	20,730
Deferred revenue	30,440	2,962
Accrued pension contribution to The Pension Fund for State Employees	191,781	376,785
Salaries and related expenses payable	321,008	250,125
Accrued holiday commitment	634,452	581,351
Accrued interest, payable	146,791	165,934
Other liabilities	168,925	77,150
	1,514,360	1,475,038

20. Financial risk

Financial instruments

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

Financial assets	31.12.2012	31.12.2011
Bank balance and cash	3,025,735	2,608,985
Financial assets that are intended to hold to maturity	430,687	140,418
Loans and receivables	1,700,030	1,621,704

Financial liabilities	31.12.2012	31.12.2011
Other financial liabilities	21,628,793	21,564,813

Amounts are in ISK thousands

20. Financial risk (continued)

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

Risk management

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

Interest rate risk

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

Interest rate changes affect the expected cash flow of assets and liabilities which bear floating interest rates. Interest rate risk is only applicable to interest bearing assets since the liabilites of the Company only bear fixed 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:

	31.12.2012		31.12.2011	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on profit or loss and other equity	(55,936)	(111,872)	(53,920)	(107,839)

Foreign currency risk

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

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

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

	Year-end rate		Average rate		Volatility
Currency	2012	2011	2012	2011	2012
EUR	169.80	158.84	160.73	161.42	5.4%
GBP	208.15	189.43	198.16	186.00	6.4%
JPY	1.495	1.585	1.570	1.458	10.4%
DKK	22.76	21.37	21.59	21.67	5.4%
NOK	23.04	20.40	21.50	20.70	7.0%
SEK	19.76	17.79	18.47	17.88	7.5%
USD	128.74	122.71	125.05	116.07	7.9%
CHF	140.64	130.66	133.35	131.20	7.7%
CAD	129.36	120.21	125.09	117.31	7.7%

Amounts are in ISK thousands

20. Financial risk (continued)

Foreign currency risk 31.12.2012

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

Foreign currency risk 31.12.2011

	Assets	Liabilities	Net balance
EUR	110,063	3,828,882	(3,718,819)
GBP	73,872	1,724,053	(1,650,181)
JPY	32,201	1,456,357	(1,424,156)
CHF	45,217	4,002,632	(3,957,415)
DKK	110,150	3,951	106,199
NOK	14,318	878	13,440
SEK	17,882	761,531	(743,649)
USD	266,125	5,312,161	(5,046,036)
CAD	1,539	0	1,539

Sensitivity analysis

The table below shows what effects 5% and 10% increase of the relevant foreign currency rate against the ISK would have on profit or loss and other equity. The table above details monetary assets and liabilities that are denomintated in foreign currency and the sensitivity analysis apply to. The foreign currency assets and liabilities in the sensitivity analysis are mainly foreign currency borrowings and foreign currency bank balances. The analysis assumes that all other variables than the relevant foreign currency rate are held constant. The sensitivity analysis does take into account tax effects. A positive amounts below indicates an increase in profit and other equity. A decrease of the relevant foreign currency rate against the ISK would have an opposite impact on profit or and other equity.

Effects on profit or loss and equity	31.12.2012		31.12.2010	
	5%	10%	5%	10%
EUR	(199,893)	(399,786)	(148,753)	(297,506)
GBP	(67,886)	(135,771)	(66,007)	(132,014)
JPY	(50,630)	(101,261)	(56,966)	(113,933)
CHF	(159,377)	(318,753)	(158,297)	(316,593)
DKK	642	1,284	4,248	8,496
NOK	528	1,055	538	1,075
SED	(28,109)	(56,218)	(29,746)	(59,492)
USD	(129,555)	(259,109)	(201,841)	(403,683)
CAD	98	196	62	123

Amounts are in ISK thousands

20. Financial risk (continued)

Credit risk

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

Maximum credit risk	Carrying amount 31.12.2012	Carrying amount 31.12.2011
Bonds and other long term assets	933,172	214,921
Accounts receivables	802,426	1,178,826
Government treasury	42,624	0
Other receivables	160,630	339,125
Bank balances and cash	3,025,735	2,608,985
	4,964,587	4,341,857

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

Liquidity risk management

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

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

	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2012				
Non-interest bearing	3,233,831	0	0	3,233,831
Floating interest rates	1,339,155	5,002,339	10,999,553	17,341,046
Fixed interest rates	71,058	325,959	1,069,293	1,465,951
	4,644,044	5,328,298	12,068,845	22,040,828
Assets 31.12.2012				
Non-interest bearing	2,048,753	37,183	69,145	2,155,081
Floating interest rates	3,064,649	146,745	150,000	3,361,394
	5,113,403	183,927	219,145	5,516,475
Net balance 31.12.2012	469,359	(5,144,371)	(11,849,700)	(16,524,354)

	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2011				
Non-interest bearing	2,481,174	0	0	2,481,174
Floating interest rates	1,269,060	4,917,927	11,412,197	17,599,183
Fixed interest rates	86,736	316,822	1,080,897	1,484,455
	3,836,970	5,234,749	12,493,094	21,564,813
Assets 31.12.2011				
Non-interest bearing	1,606,719	59,606	51,222	1,717,547
Floating interest rates	2,617,900	35,659	0	2,653,559
Fixed interest rates	0	0	0	0
	4,224,619	95,265	51,222	4,371,106
Net balance 31.12.2011	387,650	(5,139,484)	(12,441,872)	(17,193,706)

Amounts are in ISK thousands

21. Other issues

Revenues of International Air Navigation Services

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

Remaining balance on bugdet line

The remaining balances on the principal budget line 06-672 Airports and Air navigation services in The Treasury Accounts 2011 is ISK 1,176.1 million. This concerns the construction of extending the runway of Akureyri airport. The Ministry of Finance and Economic Affairs has made a claim that the Ministry of the Interior shall compensate this budget line and allocate part of Isavia‘s income from the service agreement to construction and operation. Isavia Ltd. considers this claim irrelevant to the Company.

22. Other obligations

Operating license

Isavia Ltd. holds a license from the Iceland Civil Aviation Administration for the operations of air navigation services under regulation No. 631/2008 and a license for the operation of airports according to regulation No. 464/2007. The licenses are granted for variable periods. Licenses for the operations of air navigation services and Keflavik Airport are valid until 2016. The license for Akureyri Airport are valid until 2013 and the license for Egilsstadir Airport and Reykjavik Airport are valid until 2014. Registered landing area or other airports including airports for scheduled flights, are valid until 2017.

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

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

Service agreement for construction

The service agreement between the Ministry of the Interior and the Company applies to maintenance and construction of airports. The company works with the Ministry of the Interior and prepares a proposal for maintance and construction which the company believes is neccessary to perform in accordance with the National Transportation Policy. The construction projects are included in this plan and are therefore agreed, according to the transportation policy. Payments are received according to a payment plan. In 2012 the amount for construction projects was in total ISK 403.6 million.

Service agreements for operations

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

The company is obliged to have in effect all legally binding insurance including liability insurance for air traffic control and airports. The liability coverage at year-end 2012 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 150,000,000 and USD 15,000,000 at Keflavik Airport.

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

Obligation due to employees

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

23. Related parties

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

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

24. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on April 4th, 2013.

25. Consolidated ratios

From Statement of Comprehensive Income:	2012	2011
Profitability		
Earnings before interests, taxes, depreciation and amortisation (EBITDA)	3,822,800	3,652,710
a) Contribution margin on operation	20.78%	22.12%
b) Profit margin on operating revenue	4.01%	3.66%
c) Earning per share (EPS)	0.13%	0.11%
d) Return on equity	6.54%	5.69%

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

From Balance sheet:	31.12.2012	31.12.2011
Activity ratios		
e) Investment in inventories	0.03	0.02
f) Rate of return on assets	0.56	0.51
g) Inventory turnover	7.92	8.71
h) Receivables turnover	15.07	14.72

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

Liquidity ratios		
i) Quick or acid-test ratio	1.13	1.10
j) Current ratio	1.26	1.21

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

Coverage ratios		
k) Equity ratio	34.88%	33.57%
l) Internal value of shares	2.08	1.95

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

From Cash flow:	2012	2011
m) Net cash debt coverage	0.16	0.16
n) Quality of sales	4.79	5.87
o) Quality of net profit	1.64	1.74

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

Amounts are in ISK thousands

25. Consolidated ratios (continued)

Operating expenses as percentage of revenues	2012	2011
Cost of goods sold/income from retail division	19.82%	20.28%
Salaries and related expenses/operating revenues	42.64%	41.67%
Administrative expenses/operating revenues	2.66%	3.26%
Other operating expenses/operating revenues	14.10%	12.66%
Depreciation and amortization/operating revenue	7.75%	8.18%
Operating expenses/operating revenues	86.97%	86.06%

26. Statement of Cash Flows

Consolidation	2012	2011
Net profit	737,947	604,053
Depreciation and amortization	1,426,327	1,350,682
Other non-cash items	1,070,126	1,091,382
Other changes	255,199	215,517
Working capital provided by operating activities	3,489,598	3,261,635
Changes in:		
Operating assets	(311,559)	(207,573)
Operating liabilities	357,294	490,978
Net cash provided by operating activities	3,535,334	3,545,040

Amounts are in ISK thousands

Values of Isavia

Safety

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

Co-operation

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

Service

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