

Isavia ohf.

Condensed Consolidated Interim Financial Report

1.1 - 30.06 2021

The Condensed Consolidated Interim Financial Report are translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

Isavia ohf.
Dalshraun 3
220 Hafnarfjörður
id.no. 550210-0370

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Table of Contents

Review Report on Interim Financial Information	2
Statement by the Board of Directors and CEO	3-4
Condensed consolidated Statements of Comprehensive Income	5
Condensed Consolidated Statements of Financial Position	6
Condensed Consolidated Statements of Changes in Equity	7
Condensed Consolidated Statements of Cash Flows	8
Notes to the Condensed Consolidated Financial Statements	9-15

Review Report on Interim Financial Information

To the Board of Directors and shareholders of Isavia ohf.

We have reviewed the accompanying Condensed Consolidated Interim Financial Statements of Isavia ohf. for the period January 1st to June 30th 2021, which comprise the Statement of the Board of Directors, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the Consolidated Interim Financial Statements in accordance with International Financial Reporting Standards IAS 34 for Interim Financial Reporting as adopted by the European Union.

Auditor's Responsibility

Our responsibility is to express a conclusion on these Consolidated Interim Financial Statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements, ISRE 2410. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Consolidated Interim Financial Statements does not give a true and fair view of the financial position of the entity as at June 30th 2021, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards for Interim Financial Reporting IAS 34 as adopted by the European Union.

The Icelandic National Audit Office, September 27th, 2021

Hinrik Þór Harðarson

State Authorized Public Accountant

Statement by the Board of Directors

Isavia ohf. (“the consolidated company”) is a state-owned limited company and operates on the basis of Act No. 2/1995 on limited companies. Its domicile and venue are in Hafnarfjörður.

On 1 January 2020, Isavia ohf. was divided up where the operations of air traffic control and domestic airports were moved into separate companies. The air traffic control part was transferred to the subsidiary Isavia ANS ehf. and the operation of domestic airports was transferred to the subsidiary Isavia Innanlandsflugvellir (Domestic airports) ehf. The state continues to own and maintain domestic airports. The parent company Isavia operates Keflavik Airport.

The Treasury is the only shareholder of the company. The Interim Financial Statements have been prepared in accordance with International Financial Reporting Standard IAS 34 on Interim Financial Statements.

According to the statement of income and expenditure of Isavia ohf., total operating income amounted to ISK 6.281 million for the period (1.1-30.6.2020: ISK 8.607 million). The loss for the period amounted to ISK 3.514 million (1.1-30.6.2020: ISK 7.608 million loss). The Positive exchange rate difference amounted to ISK 2.230 million (1.1-30.6.2020: negative ISK 3.723 million). At the end of the period the assets amounted to ISK 80.952 million (31.12.2020: ISK 80.477 million). Total equity amounted to ISK 26.744 million (31.12.2020: ISK 27.259 million) and the equity ratio for the consolidated group was 33,04% at the end of the period (1.1-30.6.2020: 33.87%). Wages and other staff costs amounted to ISK 7.172 million (1.1 – 30.6.2020: ISK 8.210 million). The average number of staff for the period was 930,3 (1.1–30.6.2020: 1.183,1).

At the end of last year, the ruling of the Internal Revenue Board decided in favor of the company in its dispute with the Iceland Revenue and Customs regarding the handling of filed value added tax returns for the period September 2016 to December 2018. Reference is made to note 11 to the interim financial statement regarding this issue.

Attention is called to the write-down of claims, including the write-down due to the collapse of WOW air in 2019. Reference is made to note 11 to the interim financial statement regarding this issue.

The share capital at the end of the period amounted to ISK 12.559 million (31.12.2020: ISK 9.559 million). The share capital was increased by ISK 3.000 million during the period 1.1 – 30.6.2021.

The year 2020 proved to be a challenge for Isavia. Early in the year, the operations of the company were deeply impacted by the COVID-19 pandemic when travel to and from Iceland was largely halted. For the year of 2020 as a whole, the number of passengers going through Keflavik Airport declined by 81%. In the period April to December 2020, the decline was 93% compared to 2019, but as a whole the decline of passengers was 81% if compared to the whole year of 2020. Due to the pandemic the number of passengers going through Keflavik Airport in the first half of 2021 decreased by 76% compared to the same period of 2020. However, there has been some turnaround in the second quarter of 2021 and the number of passengers has increased fivefold between the two years, to about 200.000 from 36.000 passengers in the same quarter of 2020. Isavia's forecast now assumes that the number of passengers at Keflavik Airport will reach 50-60% of what it was before the impact of Covid-19 began in the second half of 2021.

Statement by the Board of Directors

A lot of work has been done to adjust the operation of the company to completely changed environment. The owner of the company provided fresh share capital in June and again at the beginning of 2021. Both these share capital increases were intended to meet the loss incurred by COVID-19 and thereby enable the company to continue its investment in the infrastructure of Keflavik Airport for the future. Although the company was well poised to meet the effects of COVID-19, it is evident that there is still great uncertainty as to when travel restrictions in the world will be eased. The Board of the company believes that the operating ability of the company is ensured, especially in light of the share capital increase that took place at the beginning of 2021. Reference is made to note 16 to the interim financial statement regarding this issue.

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

The Board of Directors and CEO of Isavia ohf. hereby confirm the Consolidated Interim Financial Statements for the period January 1st and ends June 30th 2021 with their signatures.

Hafnarfjörður, September 27th 2021

Board of Directors

Orri Hauksson
Chairman of the Board

Eva Pandora Baldursdóttir

Matthías Páll Imsland

Nanna Margrét Gunnlaugsdóttir

Valdimar Halldórsson

CEO

Sveinbjörn Indriðason

Consolidated Statements of Comprehensive Income 1.1- 30.06 2021

	Notes	Consolidation	
		1.1 - 30.06.2021	1.1 - 30.06.2020
Operating revenues	4	6.280.926	8.607.375
Cost of goods sold		(340.380)	(1.171.171)
Salaries and related expenses	5	(7.171.510)	(8.210.227)
Administrative expenses		(119.030)	(200.026)
Other operating expenses		(1.853.646)	(2.360.026)
Operating loss before depreciation and amortization		(3.203.641)	(3.334.075)
Depreciation and amortization	7,8,9	(1.925.153)	(1.944.015)
Operating loss		(5.128.794)	(5.278.090)
Financial income	6	29.325	98.873
Financial expenses	6	(663.969)	(598.245)
Net exchange rate differences	6	2.229.769	(3.722.718)
Loss before taxes		(3.533.669)	(9.500.180)
Income tax		19.632	1.891.975
Total comprehensive income for the period		(3.514.037)	(7.608.205)

Consolidated Statements of Financial Position June 30th 2021

Assets	Notes	Consolidation	
		30.06.2021	31.12.2020
Non-current assets			
Property, plant and equipment	7	57.285.556	57.193.958
Intangible assets	8	4.506.783	4.611.584
Right of use asset	9	400.070	353.874
Bonds		56.740	79.843
		<u>62.249.150</u>	<u>62.239.260</u>
Current assets			
Inventories		363.058	279.877
Accounts receivables	11	4.432.083	2.606.353
Current maturities of long-term assets		39.336	38.719
Other receivables	11	6.487.351	5.940.347
Bank balances and cash		7.380.708	9.372.336
		<u>18.702.535</u>	<u>18.237.633</u>
Total assets		<u><u>80.951.684</u></u>	<u><u>80.476.893</u></u>
Equity and liabilities			
Equity			
Share capital	12	12.559.063	9.559.063
Statutory reserves		2.483.798	2.483.798
Revaluation reserves		40.374	41.036
Retained earnings		11.660.409	15.175.455
		<u>26.743.644</u>	<u>27.259.353</u>
Non-current liabilities			
Loans from credit institutions	13	42.207.220	43.660.249
Lease agreements	9	316.373	274.360
Deferred tax liabilities	14	279.214	299.989
		<u>42.802.807</u>	<u>44.234.598</u>
Current liabilities			
Accounts payable		3.977.471	1.630.291
Current maturities of loans from credit institutions	13	3.151.314	4.086.163
Current maturities of lease agreements	9	89.879	83.727
Current tax liabilities	14	772	3.888
Other current liabilities	15	4.185.797	3.178.873
		<u>11.405.233</u>	<u>8.982.941</u>
Liabilities		<u>54.208.040</u>	<u>53.217.540</u>
Total equity and liabilities		<u><u>80.951.684</u></u>	<u><u>80.476.893</u></u>

Consolidated Statement of Changes in Equity 1.1.- 30.06.2021

	Share Capital	Statutory Reserves	Revaluation-Reserves	Retained earnings	Total Equity
Opening balance at January 1st, 2020	5.589.063	2.483.798	42.360	28.350.724	36.465.945
New share capital	3.970.000	0	0	0	3.970.000
Depreciation of revaluation	0	0	(662)	662	0
Translation differences	0	0	0	1.567	1.567
Comprehensive income	0	0	0	(7.608.205)	(7.608.205)
Balance at June 30th, 2020	9.559.063	2.483.798	41.698	20.744.748	32.829.307
Opening balance at January 1st, 2021	9.559.063	2.483.798	41.036	15.175.455	27.259.353
New share capital	3.000.000	0	0	0	3.000.000
Depreciation of revaluation	0	0	(662)	662	0
Translation difference	0	0	0	(1.672)	(1.672)
Comprehensive income	0	0	0	(3.514.037)	(3.514.037)
Balance at June 30th, 2021	12.559.063	2.483.798	40.374	11.660.409	26.743.644

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

Consolidated Statement of Cash Flows 1.1 - 30.06.2021

		Consolidation	
	Notes	1.1.-30.06.2021	1.1.-30.06.2020
Cash flows from operating activities			
Operating loss		(5.128.794)	(5.278.090)
Depreciation and amortization	7,8,9	1.925.153	1.944.015
Short term assets - change of provision		(78.258)	190.050
Loss on disposal of assets		434	0
Operating cash flow before transfer to working capital		<u>(3.281.465)</u>	<u>(3.144.025)</u>
Changes in inventories		(42.309)	48.967
Changes in operating assets		(2.198.571)	715.966
Changes in operating liabilities		3.136.526	(377.629)
Cash generated from operations		<u>(2.385.818)</u>	<u>(2.756.721)</u>
Interest earned		22.589	68.923
Finance costs and foreign exchange rates paid		(458.306)	(253.780)
Income taxes paid		0	(198.772)
Net cash generated from operating activities		<u>(2.821.536)</u>	<u>(3.140.350)</u>
Investing activities			
Investments of property, plant and equipment	7,8	(1.863.311)	(1.516.633)
Installments on bonds		26.505	26.027
Investing activities		<u>(1.836.806)</u>	<u>(1.490.606)</u>
Financing activities			
Paid-in share capital		3.000.000	3.970.000
New bank loans raised		183.024	7.792.000
Instalments of long-term debt		(218.158)	(502.310)
Installments of leases		(46.045)	(29.360)
Financing activities		<u>2.918.820</u>	<u>11.230.330</u>
Net change in cash and cash equivalents		(1.739.522)	6.599.374
Cash and cash equivalents at the beginning of the period		9.372.336	9.166.641
Effect of foreign exchange rates on cash and cash equivalents		(252.107)	351.511
Cash and cash equivalents at the end of the period		<u><u>7.380.708</u></u>	<u><u>16.117.526</u></u>

Notes

1. General information

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 are Hafnarfjörður.

Isavia, along with its subsidiaries, operates and maintains all airports in Iceland, and it also operates air traffic control in the Icelandic aviation area. On 1 January 2020, Isavia ohf. was divided up, whereby the operation of air traffic control and domestic airports was transferred to separate companies. The air traffic control part was transferred to the subsidiary Isavia ANS ehf., and the domestic airport part was moved to the subsidiary Isavia Innanlandsflugvöllir ehf.

The Consolidated Financial Statements of Isavia ohf. consist of the Parent Company and its subsidiaries. Companies within the consolidation are in addition to Isavia ohf., Isavia ANS ehf., Isavia Innanlandsflugvöllir ehf., Duty Free Store ehf., Tern Systems ehf., Tern Hungary, Domavia ehf. and Suluk ApS in Greenland. For further information see note 10.

2. Summary of Significant Accounting Policies

Statement of compliance

The Condensed Consolidated Interim Financial Statements for the period of January 1st to June 30th, 2021 have been prepared in accordance with IAS 34, as adopted by the European Union. Condensed Interim Financial Statements does not include all the information required in the final financial statements and should be read in conjunction with the Consolidated Financial Statement for the year 2020.

The Interim Financial Statements has been prepared according to the same accounting principles as in the previous year 2020. The financial statements can be accessed from the company headquarters or on its website; www.isavia.is.

The fundamental accounting principles

The Condensed Consolidated Interim Financial Statements are presented in Icelandic krona (ISK), which is the functional currency of the Company. The Condensed Consolidated Interim Financial Statements are prepared on a basis of cost, except certain fixed asset are valued according to the revaluation method.

3. Significant accounting judgements and key sources of estimation uncertainty

In preparing of the Consolidated Financial Statements, managers must, in accordance with International Financial Reporting Standard IAS 34, as adopted by the European Union, make decisions, assess and draw conclusions that affect assets and liabilities on the accounting date, disclosure information and income and expenses. The assessment and conclusions are based on experience and various other factors that are considered relevant and form the basis of the decisions made on the book value of assets and liabilities that are not otherwise available.

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

Administrators have made assumptions and accounting estimates on the following items that have significant impact on the financial statement.

- Property, plant, and equipment
- Intangible assets
- Inventories
- Accounts receivables
- Deferred tax liabilities

4. Revenues

The consolidated composition of revenues, is specified as follows:

	1.1.-30.06.2021	1.1.-30.06.2020
Revenue from air navigation.....	3.022.684	3.179.073
Revenue from domestic airports.....	1.258.848	908.184
Revenue from Keflavik airport.....	1.055.051	2.055.959
Revenue from other functionals.....	173.025	176.823
Revenue from sales.....	771.317	2.287.337
	<u>6.280.926</u>	<u>8.607.375</u>

Notes

5. Salaries and related expenses

	1.1.-30.06.2021	1.1.-30.06.2020
Salaries	5.580.070	6.418.485
Salary-related expenses	1.400.067	1.609.487
Other salary- and employee expenses	191.373	182.255
	<u>7.171.510</u>	<u>8.210.227</u>

6. Financial income and expenses

Financial income

	1.1.-30.06.2021	1.1.-30.06.2020
Interest on bank deposits	4.543	53.769
Interest revenue on investments held to maturity	3.530	4.255
Other interest revenue	21.252	40.850
	<u>29.325</u>	<u>98.873</u>

Financial expenses

	1.1.-30.06.2021	1.1.-30.06.2020
Interest expense and indexation	(632.316)	(576.098)
Debt collection fee	(30.795)	(20.893)
Interest on late payments	(859)	(1.254)
	<u>(663.969)</u>	<u>(598.245)</u>

Net exchange rate differences

	1.1.-30.06.2021	1.1.-30.06.2020
Net exchange rate differences	2.229.769	(3.722.718)

7. Property, plant and equipment

	Buildings and artwork	Loading bridges and car parks	Fixtures and machinery	Other assets	Total
Cost					
Balance at beginning of period	38.730.021	19.322.307	2.999.616	17.240.792	78.292.736
Additions	857.855	412.359	299	594.160	1.864.673
Disposals	0	0	0	(40.217)	(40.217)
Sold	0	0	0	(174.294)	(174.294)
Balance at end of period	<u>39.587.876</u>	<u>19.734.666</u>	<u>2.999.915</u>	<u>17.620.440</u>	<u>79.942.898</u>
Accumulated depreciation					
Balance at beginning of period	9.725.372	3.251.194	1.206.767	6.915.446	21.098.778
Depreciation	483.959	382.029	157.363	677.926	1.701.278
Disposals	0	0	0	(40.217)	(40.217)
Sold	0	0	0	(102.498)	(102.498)
Balance at end of period	<u>10.209.332</u>	<u>3.633.223</u>	<u>1.364.130</u>	<u>7.450.657</u>	<u>22.657.341</u>
Book value					
Book value at beginning of period	29.004.648	16.071.114	1.792.850	10.325.346	57.193.958
Book value at end of period	<u>29.378.544</u>	<u>16.101.444</u>	<u>1.635.785</u>	<u>10.169.783</u>	<u>57.285.556</u>
Depreciation rates	0-14%	2-20%	5-33%	5-33%	

Notes

8. Intangible assets and amortization

	Usage agreement on facilities	Usage agreement on runways	Software and Development cost	Total
Cost				
Balance at beginning of period	477.035	5.706.000	1.342.739	7.525.774
Additions	0	0	70.002	70.002
Balance at end of period	477.035	5.706.000	1.412.740	7.595.775
Amortization				
Balance at beginning of period	190.853	2.282.862	440.475	2.914.189
Depreciation	7.950	95.087	71.766	174.803
Balance at end of period	198.802	2.377.949	512.241	3.088.992
Book value				
Book value at beginning of period	286.182	3.423.138	902.264	4.611.584
Book value at end of period	278.233	3.328.051	900.500	4.506.783
Depreciation rates	3,3%	3,3%	0-10%	

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 Consolidation's software product which is named Polaris but used to be named 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 around the world. Development cost is capitalized at cost as intangible assets with unlimited useful life and its recoverable amount is reassessed at least every year. The Consolidation has assessed the recoverable amount of this intangible asset and determined that this asset has not suffered an impairment loss in the year 2020 nor in the period January to June 2021.

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

9. Leases

Right-of-use assets	Property	Total
Balance at beginning of period	353.874	353.874
Adjustments for indexed leases	111.869	111.869
Changes for new and end of older right of use	(16.601)	(16.601)
Depreciation	(49.072)	(49.072)
Balance at end of period	400.070	400.070
Amounts recognised in income statement	1.1-30.6 2021	1.1-30.6 2020
Depreciation expense from right-of-use assets	49.072	30.210
Interest expense on lease liabilities	8.024	3.476
Total amount recognised in income statement	57.096	33.686
Lease liabilities		
Maturity analysis, undiscounted lease payments	30.6 2021	31.12 2020
Not later than 1 year	88.910	99.893
Later than 1 year and not later than 5 years	326.245	269.242
Later than 5 year	65.811	65.964
	480.965	435.100

Notes

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			
Domavia ehf., Reykjavik	100,0%	500	Real estate business
Duty Free Store ehf., Keflavik Airport	100,0%	50.000	Retail and commerce
Isavia ANS ehf., Reykjavik Airport	100,0%	310.500	Air traffic control services
Isavia Innanlandsflugvöllir ehf., Reykjavik Airport	100,0%	52.350	Domestic airport operations
Suluk ApS, Greenland	100,0%	1.999	Services of air traffic controllers
Tern Systems ehf., Kopavogur	100,0%	80.000	Software and consulting
Tern Branch, Hungary	100,0%	16.877	Software and consulting

11. Other financial assets

Accounts receivables

	30.06.2021	31.12.2020
Domestic receivables	2.954.636	2.897.391
Foreign receivables	268.004	196.520
Allowances for doubtful accounts	(2.314.568)	(2.355.974)
Receivables joint finance agreement	3.524.010	1.868.417
	<u>4.432.083</u>	<u>2.606.353</u>

Allowance has been made for doubtful accounts. This allowance is based on management's estimates, previous years experience and economic outlook at the reporting date. Value of allowance for doubtful accounts are valued in accordance with IFRS 9.

The Consolidation assesses the allowance for doubtful accounts based on the likelihood of default occurring any time during the life of the receivables. Accounts receivables are divided into age groups and impairment loss estimated for each age group that is based on experience of previous years, management estimates and future prospects in the client's economic environment. It is the opinion of the Consolidation's management that the carrying amount of accounts receivables and other receivables reflects their fair value.

The Consolidation is of the opinion that objective evidence of impairment is present if the information from the Consolidation or outside parties indicate that the debtor is in financial difficulties or if receivables are more than 90 days past due.

On March 28th 2019, Isavia exercised its authority to ground an aircraft operated by WOW air due to unpaid user fees concerning the operation of the airline at Keflavik Airport. The authority was exercised according to paragraph 1, Article 136 of the Aviation Act No. 60/1998. According to the wording of said paragraph, earlier court precedents and the application of the authority in earlier years, the authority was exercised for all unpaid user fees of the airline. The owner of the aircraft filed an injunction before the Reykjanes District Court in an effort to overturn the grounding of the aircraft. In the end, the Court ruled that the grounding should be lifted after the owner of the aircraft had paid unpaid user fees that solely were attributable to the specific aircraft. Isavia was not accorded the opportunity to appeal the ruling to a higher court, which in the opinion of the company, is significantly objectionable in light of the interests at hand, and on previous occasions, a higher court had ruled in favour of the company. Although this ruling was voided based on legal technicalities, the opinion of the higher court remains. In light of the fact that the equivalent of a lien for the payment of unpaid user fees has disappeared due to the ruling of the Reykjanes District Court, it is seen prudent to write down the claim of ISK 2.160 million in the accounts of the consolidated group. This write-down does in no way change the opinion of the company that the ruling was wrong and that the ruling of the district court judge on the denial of a stay of the ruling was significantly objectionable. Isavia has sued the owner of the aircraft and the Treasury for damages resulting from the implementation of the injunction on the aircraft.

Notes

11. Other financial assets (continued)

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

Past-Due status	30.6.2021			
	Expected credit loss	Gross amount	Allowance	Book value
Receivables not yet due	0,6%	715.048	4.389	710.659
Receivables, past-due 1-90 days	10,3%	106.447	10.927	95.520
Receivables, past-due 91-180 days	8,5%	10.939	925	10.014
Receivables, past-due 181-270 days	25,8%	25.626	6.612	19.014
Receivables, past-due 271 days and older	96,9%	2.364.580	2.291.715	72.865
Total		3.222.640	2.314.568	908.073

Past-Due status	31.12.2020			
	Expected credit loss	Gross amount	Allowance	Book value
Receivables not yet due	0,5%	528.512	2.599	525.913
Receivables, past-due 1-90 days	11,2%	109.676	12.270	97.405
Receivables, past-due 91-180 days	30,3%	99.435	30.151	69.285
Receivables, past-due 181-270 days	54,6%	20.174	11.022	9.153
Receivables, past-due 271 days and older	98,5%	2.336.113	2.299.932	36.181
Total		3.093.911	2.355.974	737.937

Other receivables

	30.06.2021	31.12.2020
Value added tax of previous years	5.196.837	5.196.837
Value added tax	243.465	181.087
Prepaid expenses	486.242	120.929
Capital income tax	21.777	19.847
Accrued interest	2.538	0
Prepaid salaries	0	44.914
Other receivables	536.490	376.733
	6.487.351	5.940.347

The claim of the company for value added tax of earlier years consists of unprocessed but filed value added tax returns with the Iceland Revenue and Customs for the period September 2016 to December 2018. The Iceland Revenue and Customs has doubted the appropriateness of the company servicing international aircraft at Keflavik Airport, cf. Article 12 of the Value Added Tax Act, and that it qualifies for a so-called zero rate, i.e. that it can claim a tax refund for procured goods and services and not pay out-tax. The company argues on the other hand that this important premise had been clear at the beginning of the registration of the company in the value-added-tax register at its establishment.

The Iceland Revenue and Customs ruled on this dispute in May 2020, and the company brought the ruling before the Internal Revenue Board in July 2020. With the ruling of the Internal Revenue Board no. 181/2020 of December 2020, the ruling of the Iceland Revenue and Customs of May 2020 was voided, and the Iceland Revenue and Customs was ordered to rule anew on the basis of the views of the company to the effect that user fees for aircraft belonged under Article 12 of the Value Added Tax Act, as the company had argued. It still remains unclear how to treat value added tax on mixed activity, an insignificant amount. This is still pending answers from the Iceland Revenue and Customs.

Amendments to the Value Added Tax Act No. 143/2018 remove all doubt on the authority of the company to apply the method it has used from the company's establishment. These amendments entered into force on January 1st 2019.

Notes

12. Equity

Share capital is specified as follows:

	Shares	Ratio	Amount
Total share capital at end of period	12.559.063	100,0%	12.559.063

Paid in share capital for the period amounts 3 billion ISK. One ISK share carries one vote. The Ministry of Finance carries the voting rights on behalf of the Icelandic Treasury. All shares have been paid in full.

13. Long term borrowings

	Loans from credit institutions	
	30.06.2021	31.12.2020
Debts in EUR	38.226.131	40.710.213
Debts in ISK	7.132.403	7.036.199
	45.358.534	47.746.412
Amount due for settlement within 12 months	(3.151.314)	(4.086.163)
Non-current liabilities at end of period	42.207.220	43.660.249

Installments of non-current liabilities are specified as follows:

	Loans from credit institutions	
	30.06.2021	31.12.2020
Installments 1.7.2021 - 30.6.2022 / 1.1.2021 - 31.12.2021	3.151.314	4.086.163
Installments 1.7.2022 - 30.6.2023 / 1.1.2022 - 31.12.2022	2.732.327	5.780.049
Installments 1.7.2023 - 30.6.2024 / 1.1.2023 - 31.12.2023	3.301.710	1.900.874
Installments 1.7.2024 - 30.6.2025 / 1.1.2024 - 31.12.2024	3.493.144	2.205.290
Installments 1.7.2025 - 30.6.2026 / 1.1.2025 - 31.12.2025	10.307.116	2.610.532
Installments later	22.372.923	31.163.505
	45.358.534	47.746.412

Loans amounting to ISK 44.463 are subject to terms related to the equity ratio. Of this amount, loans amounting to ISK 40.204 million are also subject to terms related to the ratio of net interest-bearing debt to EBITDA. The management has negotiated with banks for the extension of loans, changes in loan terms and repayment paths. The financial terms are reviewed periodically, and on 30.06.2021, the terms of the ratio of net interest-bearing debt to EBITDA were not attained. All the creditors of the company had at the end of the year formally confirmed that they would not activate the financial terms for the time being.

14. Deferred tax liability

	Deferred tax liabilities
Opening balance at beginning of period	299.989
Calculated income tax for the period	(20.002)
Income tax payable for the period	(772)
Balance at end of period	279.214

Deferred tax balances consist of the following account balances:

	Deferred tax liabilities
Property, plant, and equipment	2.195.953
Current assets	(425.298)
Deferred exchange rate difference	44.688
Other items	(13.483)
Tax loss carried forward	(3.436.068)
	(1.634.209)
Income tax credit not recognized in the interim financial statement	1.913.423
	279.214

Notes

15. Other financial liabilities

Accounts payable

	30.06 2020	31.12 2020
Domestic accounts payable	3.594.389	1.352.620
Foreign accounts payable	383.082	277.671
	<u>3.977.471</u>	<u>1.630.291</u>

Other current liabilities

	30.06 2021	31.12 2020
Value added tax, payable	25.643	25.504
Salaries and related expenses payable	1.183.985	761.696
Accrued additional contribution to pension fund	1.957.819	1.627.352
Accrued interest, payable	537.107	456.368
Unfinished contracts	106.697	99.161
Deferred income	334.470	174.556
Other liabilities	40.075	34.237
	<u>4.185.797</u>	<u>3.178.873</u>

Current maturities of long-term liabilities

	30.06 2021	31.12 2020
Loans from credit institutions	3.151.314	4.086.163
	<u>3.151.314</u>	<u>4.086.163</u>

16. The effect of COVID-19 pandemic on Isavia operation

The company's operations have been deeply impacted by the extensive travel restrictions from March 2020 until June 2021 due to the pandemic, although restrictive measure have been taken in operations its likely to affect passenger and air traffic in the coming years. Estimates assume it will take several years to reach the same number of passengers that passed through Keflavik Airport in 2019, but uncertainty remains regarding the number of passengers due to the pandemic despite the success of recapture of airlines in 2021.

Operating income decreased between periods by ISK 2.3 billion or 27%. Wage cost decreased by ISK 1.039 million or 13% between periods and other operating and administrative expenses decreased by ISK 587 million or 23%.

Cash and cash equivalents for operations were negative by ISK 2.8 billion in the period January – June 2021, compared to negative cash and cash equivalents for operations by ISK 3.1 billion for the same period in 2020.

At the beginning of 2021, it was approved that the owner of the company would increase its share capital by ISK 15 billion to support the operation of the company in wake of the pandemic. This substantially strengthens the company's operational ability and provides necessary flexibility in operations and the ability to continue development of infrastructure in Keflavik Airport. Of the ISK 15 billion, ISK 3 billion have already been paid in June 2021 and ISK 3 billion was paid at the end of July 2021. In comparison, investments at Keflavik Airport in 2020 were around ISK 2.7 billion, while estimated investments in 2021 are around ISK 8 billion.

There is an agreement with the company's lenders regarding amendments to the credit terms, extension of credit and changes to installments which have also provided the company with increased flexibility in operations and strengthened the company's operational capabilities.

The company's estimates in 2021 anticipate considerable losses next year, but a low point has been reached in 2020 and a turnaround predictable in coming years as the travel restrictions continues to decrease.

17. Approval of financial interim statements

The Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on September 27th, 2021.