

Annual Report **2022** |  isavia



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Introduction by CEO



After a period of uncertainty lasting about two years due to the COVID-19 pandemic, 2022 marked the awaited turnaround. At the beginning of the year, there were still travel restrictions in place at the Icelandic border, but as soon as they were lifted, one may certainly say that the wait was over. Iceland is a unique destination, and the connection hub between Europe and North America is, in the same sense, uniquely well placed. This meant that it only took about four months to reach the same number of passengers per month

as travelled through Keflavík Airport in 2019, which was the last whole year before the pandemic. This speedy recovery is pretty much the only one of its kind in Europe. This indicates that the pandemic did not effect people's will to travel to Iceland, and just as importantly, the decisions of the airlines which fly to and from Keflavík Airport demonstrate that their faith in the destination and the connection hub was by no means lessened. Interestingly, seat availability to and from Keflavík International Airport was 12% higher this winter than during the winter immediately preceding the pandemic. At the same time, the airports in Copenhagen, Oslo, Stockholm and Helsinki – a yardstick for our airport – have in this winter seen a fall in seat availability of 8–25% from the last winter before the pandemic.

Isavia's parent company, which runs Keflavík International Airport, forecasts higher passenger numbers for this year compared to 2019 since 2023 is the first full year after travel restrictions were lifted. ACI Europe issued a forecast at the end of last year that passenger numbers at European airports this year would be just 91% of 2019 levels. At the same time, we forecast that there will be 7.8 million passengers at Keflavík Airport – up from 7.2 million in 2019. ACI Europe does not expect airports in Europe to reach 2019 passenger numbers until 2025.

In addition to how fantastic a destination Iceland is, it's clear that this speedy recovery would not have taken place if the travel industry had not taken

co-ordinated action. We have two powerful Icelandic airlines which use the connection hub at Keflavík Airport, in addition to many foreign airlines. In most cases by far, our airlines reacted quickly to the lifting of travel restrictions last year. Also, the company has an incentive system at Keflavík Airport which made it easier for airlines to decide to resume flying to Iceland and increase the frequency of flights between the airport and other destinations.

The success of the company in dealing with the recovery after two years of uncertainty and a collapse in the number of travellers was noticeable. The staff of Isavia Group once again demonstrated their mettle as the wheels were set in motion once more after longstanding travel restrictions. The company's long-term criteria presume that we have returned to the status quo before the pandemic with regard to the estimated number of international air passengers in the coming years. What this means, in fact, is that the company is faced with the same need for reconstruction at Keflavík Airport as before. Following the decision of the Minister of Finance and Economic Affairs to increase the shares in Isavia in 2021, preparation work was set in motion for the reconstruction of the airport after the uncertainty of the pandemic. In the previous year, extensive construction was done at Keflavík Airport which resulted in the greatest number of projects during one year in the history of the company, and estimates project that this year will be even bigger. Great growth within the operation concurrent with enormous construction well-nigh within the daily flow of passengers and planes places a lot of strain on the infrastructure of the company.

When it comes to the regional airports and their operation, the responsibility for financing and service quality lies with the state, as it is an unsustainable public service. The same applies to the infrastructure of the regional airports; they are owned by the state, which is responsible for providing adequate funds for maintenance. For many years, funding for maintenance has been very sparse. Finances have been prioritised in such a way as to ensure flight safety, but at the same time, it has been impossible to tend to the necessary maintenance of the terminals and other properties. The condition of many properties has become very poor indeed, and some of them are becoming, or have become, unfit for use. Also, the effect of climate

change has become evident at the airports, for instance, with floods taking place at certain airports, which calls for investment in countermeasures. If domestic air travel is to continue to be used to level the playing field for all Icelanders, regardless of where they live, then additional maintenance funding must be greatly increased; otherwise, the number of unusable properties will rise quickly. Also, it's important not to miss out on the opportunities inherent in the energy transition, as Iceland has a great chance of leading the way.

In the past few years, Isavia has taken large and important strides towards sustainability, and the company's sustainability policy is accompanied by a five-year action plan in which the company's emphases, goals and criteria in the field are set out. They were selected with reference to the company's strategy, comments from external stakeholders, the criteria of the UN Global Compact, the United Nations Global Goals and government priorities.

As a party to the UN Global Compact, Isavia commits itself to conduct its practices in pursuit of the ten criteria of the United Nations on human rights, labour, the environment and anti-corruption. In this annual report, we describe the operation of Isavia in the year 2022, and the report is handed in as a progress report on our goals and our determination to operate in accordance with the ten criteria and work towards the UN Sustainable Development Goals. We declare our continued support of the UN Global Compact. Isavia issues an annual report pursuant to GRI standards and its special clauses regarding airports. Consideration is given to the company's operations and to their impact on the economy, the environment, the community and human rights. We welcome any and all comments on the content of the report, as continuous improvements are an integral part of our operations.

Exciting times lie ahead, but at the same time, Isavia Group faces some challenges. I look forward to dealing with what's ahead with this fantastic group of employees by my side, and I wish to use this opportunity to thank them all for standing firm through thick and thin.

Sveinbjörn Indriðason
CEO of Isavia

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Address of the Chairman of the Board of Directors



One can certainly say that in 2022, the recovery from the COVID-19 pandemic succeeded beyond all expectations and in a resounding way at Keflavík Airport. When looking back, it's surreal to imagine that it's only been a little over a year since all the travel restrictions due to the pandemic were lifted at the borders of Iceland. This sharp turnaround in traffic at Keflavík Airport provides hints that the criteria on which the updated strategy of the parent company of Isavia was based, which its Board of Directors approved in November of 2021, were by no means too optimistic.

The core of the policy of the company is the hub at Keflavík Airport, as it is the basis for connecting flights between Iceland and other destinations. Flight connections shore up economic growth in Iceland, as the country is an island which has few other options besides international flights to get people and products quickly and safely between countries. The company's vision to connect the world through Iceland is precisely built on this importance of the hub, which was clearly demonstrated last year. A similar number of flight connections was achieved then as before the pandemic, and thus Keflavík Airport contributed to a better quality of life and greater prosperity in Iceland.

In many of the previous years, the parent company has been faced with various and complex tasks which tend to follow in the wake of a great and often unexpected increase in the number of passengers. This has called for extensive construction each year, which has, however, been insufficient to fulfil the long-term service goals which the company has set for itself. The decision of the Minister of Finance and Economic Affairs on behalf of the owners of the company, the Icelandic state, to provide the company with fresh capital at the beginning of 2021 was therefore very important and made crucial construction possible again after the great uncertainty created

by the pandemic. Last year, investment in Keflavík Airport reached almost ISK 15 billion, which is the largest one-year investment since the company was founded. Also, 2023 is expected to be one more record-breaking year with regard to investment. The development and the construction in question signify the intentions of the company to contribute to the hub of Iceland being able to continue to enable economic growth in this country, for everyone's benefit.

The opportunities of the future are not only to be found in passenger transport, but also in the scope of cargo transport by plane to and from Iceland, which has grown and is expected to increase significantly in the coming years. That growth will also create a further need for investment in infrastructure, which will be an important task. The Masterplan for Keflavík Airport was updated last year, where one of the goals was precisely to pay more attention to cargo flights than had previously been the case.

Although air traffic through Iceland has already reached its former numbers in 2022, the financial effects of the pandemic are still felt at the company, and this will lead to a prioritisation of investments. In light of the great increase in the number of passengers and the current projects of the company, it is important that the hub at Keflavík Airport be given priority over other projects. At the same time, it's clear that there are great opportunities for increased cargo transport, and therefore, it's necessary to find ways to ensure that the potential for profits for the company isn't wasted.

Operating an airline is a lively business which has faced several challenges in the past few years. The company has definitely had its share of those. On the other hand, history has shown that the effect of crises due to external circumstances tends to wear off rather quickly. In light of how important flight connections are for the Icelandic economy, the responsibility weighs heavily on the employees and the Board of the company as they run the operation within the ever-changing environment of this business. That was done successfully during the COVID-19 pandemic. The total collapse in the number of passengers was successfully countered with general cutbacks, while at the same time, the infrastructure of the company was maintained,

including its workforce. As the business came alive again, the success of the recovery was well noticed, with regard to both the operation of the company and the investment activity.

There are still, however, ominous signs, such as increasingly strict EU measures against air travel emission. If these measures are adopted in their current form, this would pose a threat to the unique position of Iceland in such a way as to significantly worsen the competitive position of the hub without achieving the desired environmental effects of the measures. In light of the importance of flight connections for the Icelandic economy, it is imperative that all public decisions be based on the larger picture and conducive to supporting Iceland as a hub rather than reducing the potential of the opportunities available.

I should like to thank our entire staff for the fine work they have done in this diverse and challenging working environment. We are determined to fulfil our responsibility with regard to quality of life and prosperity in Iceland.

Kristján Þór Júlíusson
Chairman of the Board of Isavia

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The Year 2022



164,071

Total flights passing through the Reykjavík Oceanic Control Area



1,247

Average number of positions



26

Airlines KEF




94


Destinations




3,252 tCO₂

Carbon footprint

Revenue
 **36,505** m.kr
 (20,843 m.kr 2021)

Equity ratio
 **44.5%**
 (41.5% 2021)

Overall result
 Profit/loss
 **-617** m.kr
 (321 m.kr 2021)

Equity
 **41,962** m.kr
 (36,578 m.kr 2021)

Investment activities
 **-14,646** m.kr
 (6,519 m.kr 2021)

Tax footprint
 **5,611** m.kr
 (5,730 m.kr 2021)

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Key Figures

Passengers

The total number of passengers at all airports was just over 6.8 million in 2022, which is a 149.2% increase from 2021. There was an increase at most Icelandic airports or around 182.1% at Keflavík Airport, 40% at Akureyri Airport, 18.6% at Egilsstaðir Airport and 17.5% at Reykjavík Airport.

The number of international passengers using Icelandic scheduled flight airports increased from just under 2.2 million to just under 6.2 million, i.e. a increase of some 183.2% between years. The number of domestic passengers increased over the same period, from just under 557,000 to just over 645,000, i.e. an increase of some 15.9%.

Flight Movements

Flight Movements in all Isavia airports were just under 140,000 in 2022, or an increase of 1.2% from the year before. There was an increase at Akureyri Airport, or around 16.2%, 8.5% at Keflavík Airport and 6.1% at Egilsstaðir Airport but at decrease of 12.7% at Reykjavík Airport

Flight movements between countries were just under 55,000, or a 91.2% increase from 2021. The biggest increase was at Akureyri Airport, or around 115%.

Flight movements within Iceland decreased from 109,000 in 2021 to a little less than 84,000 in 2022, or approximately 22.6%. This is largely explained by the reduced activity in private and teaching flights and contact landings.

Freight Transportation

In 2022, almost 57,000 tonnes of goods passed through the company's airports, which is 6.2% less than the previous year. International transport of goods was just over 55 thousand tonnes, which is about 6.8% less than in 2022. Domestic freight traffic, on the other hand, increased by 23.5%, from 1,120 tonnes to more than 1,383 tonnes.

Air Traffic Control

Just over 164,000 aircrafts passed through Icelandic airspace in 2022, an increase of around 67.3% from 2021. A total of over 227 million kilometres were flown in the Icelandic air traffic control area, or more than 73.1% more than the previous year. Just over a third of all air traffic over the North Atlantic crosses the Icelandic air traffic control area, which is controlled by Isavia. The area is quite unique among oceanic areas, thanks to its flexibility as regards flight routes and altitudes.

	2020	2021	2022
Number of passengers at all Isavia airports			
Domestic passengers	320,699	556,835	645,331
International passengers	1,381,665	2,181,896	6,179,367
	1,702,364	2,738,731	6,824,698
Number of flight movements			
Domestic	84,722	109,581	84,780
International	19,198	28,971	55,380
	103,920	138,552	140,160
Number of freight transportations (tonnes)			
Domestic	897	1,120	1,383
International	49,297	59,494	55,473
	50,194	60,614	56,856
Total flights passing through the Reykjavík Oceanic Control Area			
	75,386	98,051	164,071

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From the profit and loss account (million kr.)	2022	2021
Revenue	36,505	20,843
EBITDA	5,165	(810)
EBIT	1,233	(4,721)
Financial income/expenses	(2,042)	3,565
Profit before taxes	(809)	(1,156)
Operating profits	(617)	321

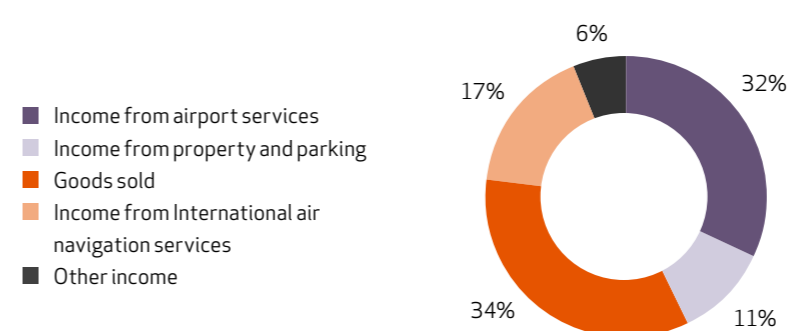
From the balance sheet (million kr.)	2022	2021
Property, plant and equipment	71,304	59,637
Assets	94,278	88,107
Equity	41,962	36,579
Interest-bearing liabilities	44,434	44,818
Current ratio	1.62	2.38

From the statement of cash flows (million kr.)	2022	2021
Operating activities	5,096	3,697
Investment activities	(14,646)	(6,519)
Financing activities	4,271	8,377
Cash and cash equivalents at the end of period	9,495	14,683

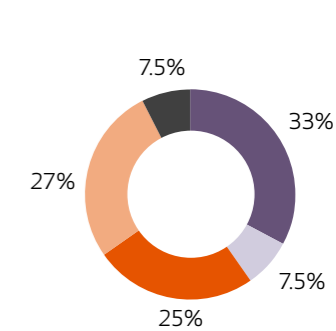
Financial ratios	2022	2021
Contribution margin	14.15%	(3.89%)
Profit margin	(1.69%)	1.54%
Return of equity	(1.57%)	1.01%
Earnings per ISK of share capital	(0.03)	0.02
Rate of return on assets	0.40	0.25
Equity ratio	44.51%	41.52%
Average number of positions	1,247	1,022

Operation's Income

2022

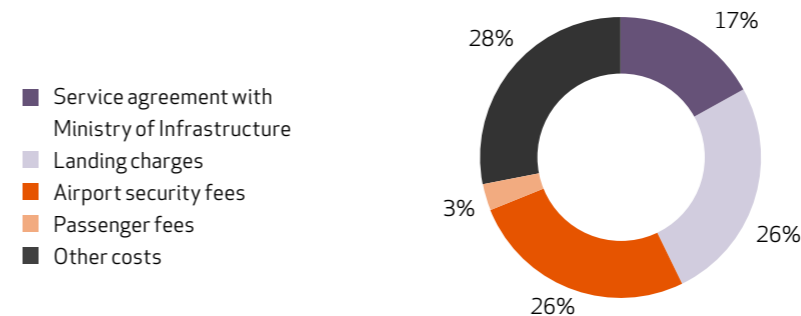


2021

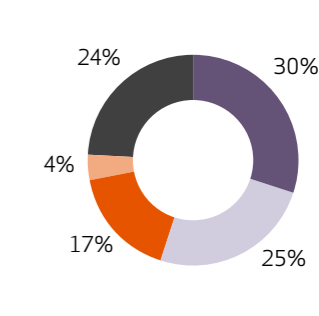


Airport Service income

2022

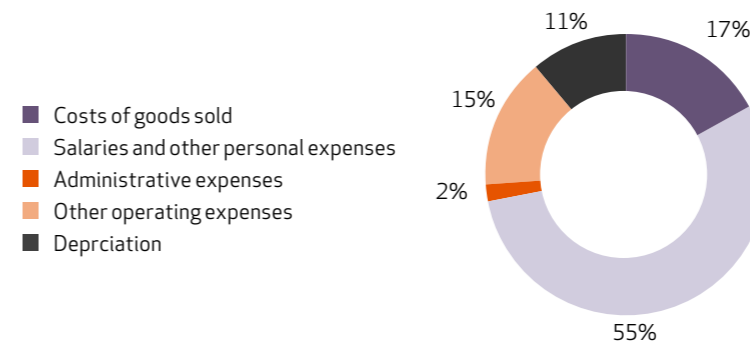


2021

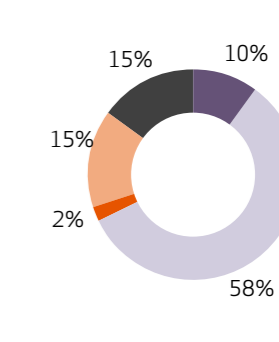


Operating Expenses

2022



2021



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Highlights from 2022

News from Isavia's website

27.01.2022

Akureyri Airport implements automatic terminal information service (ATIS)

Voice ATIS (Automatic Terminal Information Service) has been implemented for Akureyri Airport (BIAR). Airplanes using BIAR airport will receive information on weather, runway condition and other essential information by listening to the ATIS. This reduces the communication load on tower frequency with the objective to increase service and safety of flights using the airport. ATIS systems are already in use at Keflavik and Reykjavik Airports.

11.02.2022

Isavia signs the Toulouse Declaration

Nearly 100 airport operators, their associations and representatives of around 200 airports signed the Toulouse Declaration on future sustainability and decarbonisation of aviation. The declaration has been prepared at EU level with the involvement of stakeholders such as the Airports Council International Europe (ACI Europe). It marks a milestone on the road towards net zero CO₂ in European airport operations by 2050.

17.02.2022

Keflavik Airport received Voice of the Customer 2021

We were one of around 200 airports worldwide that received the Voice of the Customer award by the Airports Council International (ACI). The recognition is given to those who make a special effort to listen to the voices of their customers and meet their needs.

10.03.2022

Recognition for Services and Hygiene during the pandemic

Keflavik Airport, along with 5 other airports, has been selected as one of the best airports in Europe in its size class in terms of service quality. Keflavik Airport was also among group of 20 European airports receiving special recognition for hygiene during the year 2021. These recognitions were awarded by the Airports Council International (ACI).

31.03.2022

Large number of guests at meeting on opportunities at Keflavik Airport

There was great attendance at Isavia's open meeting to introduce the opportunity to operate two restaurants in the Keflavik Airport terminal. The airport's vision for the future was also presented, along with information on the constructions work in progress at the airport and projects that are on the planning horizon regarding further expansion.

20.04.2022

Play's first scheduled flight to the United States

Play made its maiden flight to the United States on April 20, 2022, when the company flew its first scheduled flight to Baltimore/Washington International Airport.



27.04.2022

Orion Driver simulator

Isavia and Tern Systems have signed a software service agreement for Tern to deliver the newest version of its airport driving simulator, Orion Driver, to Isavia for training at Keflavik Airport. The product supports airport operations as a tool for enhanced theoretical and practical training. Experts in ground operations from Isavia have supported the development of Orion Driver. This contract is the latest milestone in the long-term cooperation between the companies.

02.06.2022

First flight Niceair from Akureyri to Copenhagen

Súlur, the new jet of Niceair airline, made its first scheduled flight on June 2, 2022. The flight was from Akureyri to Copenhagen.

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29.06.2022
Reykjavík Airport Midnight Run held for the second time

About a hundred people took part in the Reykjavik Airport Midnight Run, which took place on the evening of 29. June 2022. The race was one lap, over 3.5 kilometers. This was the second time that the race was held, the first of which was run in the summer of 2021 on the occasion of Reykjavik Airport's 80th anniversary.

23.08.2022
First passenger flight of electric aircraft in Iceland

A milestone in Iceland's aviation history occurred at Reykjavik Airport on 23 August 2022. Important steps were taken in the energy transition of aviation when passengers were flown for the first time in an electric aircraft in Iceland. Guðni Th. Jóhannesson, the President of Iceland, and Katrín Jakobsdóttir, Prime Minister, were the first passengers.

16.09.2022
Iceland's adaptation agreement to Eurocontrol signed

Eamonn Brennan, CEO of Eurocontrol, visited Isavia ANS' headquarters at Reykjavik Airport. He met with Kjartan Briem, Managing Director, and studied the company's operations. Furthermore, Iceland's adaptation agreement to Eurocontrol was signed, which marks Iceland's intention to become a member of the Agency from the beginning of 2025. The main benefits of membership will be, inter alia, full participation in central air traffic flow management for the single European sky.

01.10.2022
300 participants in a full-scale airport emergency plan exercise

A full-scale airport emergency plan exercise between Civil Protection and Isavia was held at Reykjavik Airport. About 300 participants practiced preparedness for the event that two planes had washed up on the ground. In addition to civil protection and Isavia, the airport's staff participated in the exercise, as well as search and rescue teams, staff and medical staff, police, fire brigade, the Coast Guard, the Red Cross and other parties involved in accident preparedness.

02.11.2022
Icelandic courses during working hours

Our employees, who have a language other than Icelandic as their mother tongue, can now attend Icelandic courses offered by the company during working hours. The courses are held in collaboration with MSS, the center for continuous education. Thirteen individuals from five nationalities participated in the first course.

01.12.2022
The third largest year of Keflavík Airport ahead

Isavia has presented its passenger forecast for the year 2023. The forecast predicts 7.8 million passengers at Keflavik International Airport next year and 2.2 million tourists in Iceland. This would be the third biggest year for the airport and only in 2018 have there been more tourists coming to Iceland when they numbered 2.3 million.



Strategy and Management

Isavia is a service company that has the important role of being responsible for the operation, maintenance and development of infrastructure, which is the foundation of Iceland's air transport, connections to the outside world and flights between continents. The operation is therefore of great importance for the national economy and the company's employees endeavour to conduct their work safely and efficiently in harmony with the environment and society.



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The Board of Directors and Corporate Governance

We have an important role to play in managing the operation and development of the infrastructure that forms the basis of Iceland's air transport. To be able to carry out this role safely and efficiently requires strong management and clear Rules of Procedure that help the operations grow and develop.

Laws on Isavia's Operations

Isavia ohf. is a public limited share company owned by the Icelandic State. The company's operations are subject to Act no. 153/2009 on the Merger of the Public Limited Companies Flugstoðir and Keflavík Airport, Act No. 76/2008 on the Establishment of a Public Limited Company for the Operation of Keflavík Airport, Act No. 102/2006 on the Establishment of a Limited Share Company for Air Traffic Control Services and Airport Operation by the Civil Aviation Authority and the Aviation Act No. 80/2022. The government is authorised to entrust Isavia with the management and handling of international commitments and agreements, and the company is obliged to comply with instructions regarding the implementation and performance of such agreements.

The Board of Directors and Corporate Governance

Isavia's corporate governance practices take into account the following factors; Act no. 2/1995 on Public Limited Companies, the company's Articles of Association, the Board's Rules of Procedure and the general Ownership Policy of the State (including the Appendix pertaining to Isavia ohf.).

Board members are nominated to the Board by the Minister of Finance and Economic Affairs and are elected at the Annual General Meeting for one year at a time. It has five members and five alternates. The gender ratio on the Board is 40% women and 60% men. All board members are considered to be independent within the meaning of the Guidelines on Corporate Governance issued by the Icelandic Chamber of Commerce, the SA Confederation of Icelandic Enterprise and Nasdaq OMX Iceland. All board members have given the Board an account of their assets in other companies and they are not considered to affect their work on the Board. None of the board members work for the parent company.

Isavia's Board must comply with the company's Code of Ethics, same as the Group's staff in general. The company's Board refers to the "Guidelines of Corporate Governance" and complies with them in



Kristján Þór Júlíusson
Chairman of the Board



Matthías Páll Imsland
Vice Chairman of the Board



Hólmfríður Árnadóttir
Board Member



Jón Steindór Valdimarsson
Board Member



Nanna Margrét Gunnlaugsdóttir
Board Member

Board of Directors 2022

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all major respects. The main deviation is that the company has no Nomination Committee, as the nomination for the company's Board is with the Minister of Finance and Economic Affairs, who manages the state's share in the company. The Board's sub-committees are the Audit Committee and the Remuneration Committee, and their scope of activities also includes the subsidiaries of Isavia ohf.

In order to increase the quality and efficiency of the Board's work, it is obliged to carry out a performance evaluation annually. The evaluation is carried out by external consultants, following a standard methodology, and includes the size of the Board, its composition, practices and procedures, as well as the company's development and the CEO's performance.

The Board's Rules of Procedure

The Board has established detailed Rules of Procedure defining its tasks and the scope of authority between it and the CEO. Rules of Procedure are reviewed and approved every year. They include, i.a. the division of tasks between Board members, rules on the eligibility of board members to take part in processing matters, procedure and minutes for meetings, rules on confidentiality, the obligation to provide information to the Board and the decision-making powers of the Board.

The Board's holds supreme authority in Isavia's matters between shareholders' meetings according to law and the company's Articles of Association, manages the company, ensures adequate supervision of the accounts and disposal of the company's funds, as well as confirming the operating budget and investment plans and ensuring compliance with them.

The Board is responsible for ensuring that the company has an organised and effective control system, which consists of integrated risk management and efficient internal control. The Board makes all major decisions in the company's operations and ensures that the company is operated in accordance with the relevant laws and regulations. Furthermore, the Board has the goal of promoting the company's growth and results in the long term by formulating company policy in consultation with company management.

Corporate Governance Statement

The Corporate Governance Statement is the Board's statement for the previous operating year that is published along with the Annual Accounts. The Statement includes information on board members, subcommittees, shareholders' relations, the Executive Board, ethical standards and other matters relating to the Board.

Remuneration Committee

Isavia's goal is to attract, motivate and retain excellent staff and make working for the company a desirable option. According to the State's General Ownership Policy, wages at the company must be competitive, but at the same time moderate and not leading, and take into account public ownership. The company's Remuneration Committee is made up of two board members and the Remuneration Policy is approved at the Annual General Meeting. According to the Remuneration Policy, Board members are to receive a fixed monthly fee for their work. As a general rule in preparing employment contracts, there are to be no further payments on termination of employment other than those stated in the contract. The remuneration of executives is reviewed once a year.

Subsidiary Boards

Isavia ohf. has three subsidiaries; Isavia ANS ehf., Isavia Regional Airports ehf. and The Duty Free Store ehf. The companies are 100% owned by Isavia and are run in accordance with the Ownership Policy of Isavia's subsidiaries, their Articles of Association and the Rules of Procedure of the Boards. Policies, rules and guidelines that the parent company is obliged to implement by law or its Ownership Policy also apply to subsidiaries. The Boards of the three subsidiaries all consist of three members. Two independent parties and one employee from the parent company. The gender ratio is 33% women and 67% men.

Information on the Board of Directors and corporate governance can be found on Isavia's website.

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Risk management

The Board of Directors of Isavia ohf. has put forth a risk management policy and defined key risks and risk appetite for Isavia. Work is carried out in accordance with enterprise risk management which is based on the company's overall strategy. Isavia adheres to a formal process of risk management to reduce and manage financial and non-financial risk.

Isavia's risk management is based on the concept of COSO Enterprise Risk Management. The risk management standard ISO 31000:2018 is also used as a foundation, as is the research of the Airport Co-operative Research Program (ACRP) which covers risk management. These are recognised guidelines, and there is much to be gained by using them.

We emphasise contributing to a good understanding of the risk of the company, that it be analysed, assessed, monitored and managed with recognised actions and in a responsible manner. Also, great emphasis is placed on Isavia's risk culture being strong, the surveillance system consisting of risk management and internal surveillance and that everywhere there is organised and active surveillance of key risks. The Board of Directors, Audit Committee and Risk Committee shall also be provided regular and comprehensive updates regarding the organisation and efficiency of risk management.

The risk management process is set up to identify the key risks of the company and apply appropriate measures to mitigate such undesirable events. The management manages the risk of the company: on the one hand in accordance with the risk appetite of Isavia as set by the Board, which is the risk the group is willing to accept; and on the other hand, risk tolerance, which is the limit of acceptable deviation from the goals, defined among other things in laws and regulations that apply to the operations, domestic and international commitments, policy documents, processes, procedures and manuals.

Efforts are being made to fortify risk management within Isavia. This is done by consolidating the methodology of all the divisions and departments of the parent company and subsidiaries of Isavia so that it takes place in accordance with comprehensive and standardised methods. Goals have been set regarding the maturity of risk management in accordance with recognised theories thereof. The goal is that in April 2024, risk management will be well organised in daily tasks and that decision making and the allocation of resources will include additional risk consideration. Also, risk management will be reflected in performance assessments, as well as in assessments of key indicators which measure threats and opportunities of key factors in both the long term and short term. This goal is expected to be reached by the end of 2025, and the expectation is also that the company will play a lead role in risk management and reach an optimal position by 2027.

Isavia's senior and sub-risk factors are divided as follows

Strategic risk

- Strategy/Policy risk
- Cultural risk
- Political risk
- Ownership risk

Financial risk

- Funding/liquidity risk
- Market risk
- Counterparty risk
- Economic risk

Operational risk

- Information security risk
- Employee risk
- Health and safety risk
- Aviation security risk
- Aviation safety risk
- Airport community and customers
- The Supply chain
- Climate risk

Regulation- and Compliance risk

- Official authorisation risk
- Sustainability risk

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Operations

Isavia ohf. is responsible for the development and operation of Keflavík International Airport. Its subsidiaries Isavia ANS and Isavia Regional Airports manage, on one hand, air navigation services in one of the world's largest air traffic control areas and, on the other hand, a strong network of domestic airports in Iceland. In addition, its subsidiary the Duty Free Store operates four retail shops at Keflavík International Airport.

Isavia ohf.'s Operations

Keflavík International Airport is operated by the parent company Isavia. The airport is operated wholly on business terms and in a demanding competitive environment. This is where the greatest opportunities lie, as well as the greatest operational risks.

The company's two core divisions operate in Keflavík International Airport. On one hand, Commercial and Airport Development, which handles airlines and route development, revenue and sales, business insight and optimisation, marketing and experience, infrastructure and buildings and airport development and expansion. On the other hand, Service and Operation, which handles aviation security, services and co-ordination, airport services, control tower operations, service quality, emergency preparedness and security management.

Isavia has two support divisions. On one hand, Finance and Human Resources, which handles accounting and settlement, legal services, procurement, document management and economics services, as well as human resources and training. On the other, Digital Development and IT which handles digital development, systems operations and user services.

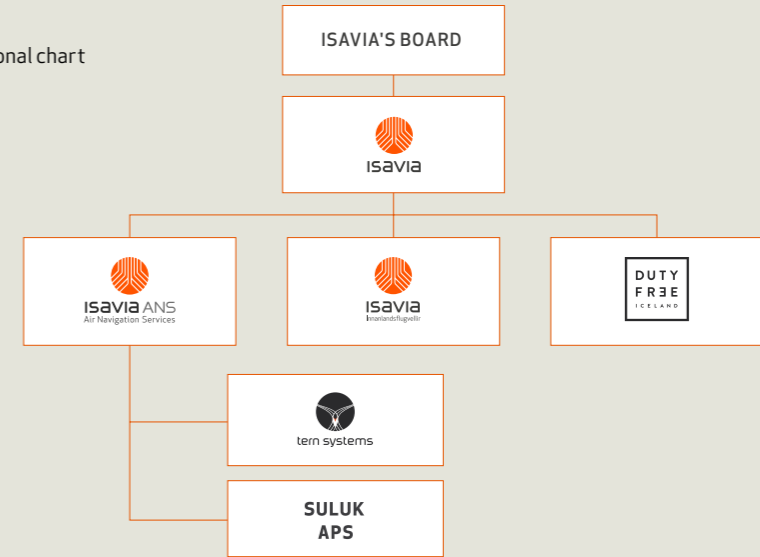
Governance, corporate strategy and sustainability, processes and improvements, public relations and planning at Keflavík International Airport are the responsibility of the CEO's office. The support divisions and the CEO office are a part of Keflavík International Airport operations. There is strong focus on all divisions of the parent company and the CEO's office working for the Isavia Group as a whole.

Isavia ANS

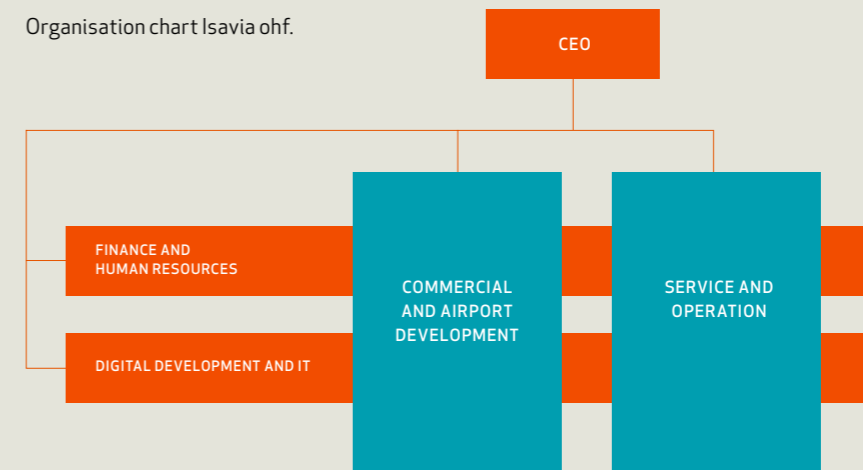
Isavia ANS ehf. has an operating license to provide air navigation services for domestic, international and intercontinental flights. The company handles, i.a. air navigation and air traffic services in the North Atlantic on behalf of Iceland and over the Icelandic air traffic control area. The International Civil Aviation Organisation (ICAO) has granted seven countries the task of handling air traffic services over this area: in addition to Iceland, these include the United Kingdom, Canada, Norway, the United States, Denmark and Portugal.

Isavia ANS operations are based on international agreements with 25 countries for services and financing (based on a full cost recovery system). Almost a quarter of air traffic en route across the North Atlantic passes through the Icelandic air traffic

Operational chart



Organisation chart Isavia ohf.



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control area, but the area has a very unique position among oceanic areas due to its flexibility, both in terms of flight routes and altitudes. The offices of Isavia ANS ehf. are at Reykjavík Airport, but aviation communications, a division within Isavia ANS, also has operations in Sóleyjarími in Grafarvogur.

Isavia ANS subsidiaries are Tern Systems, which develops software for air navigation services, and Suluk, which manages the operation of air navigation services in Greenland. Suluk ApS is located at Kangerslussuaq Airport in Greenland. Tern's headquarters are in Hlíðarsmári in Kópavogur, and it has offices in Budapest, Hungary.

Isavia Regional Airports

Isavia Regional Airports deals with the operations of Iceland's scheduled airports other than Keflavík International Airport. The company operates three airports that can handle international flights – Reykjavík Airport, Akureyri Airport and Egilsstaðir Airport – as well as nine smaller airports and landing sites for regular scheduled domestic flights. The company is also responsible for 30 other landing sites throughout Iceland. Isavia Regional Airport's offices are located at Reykjavík Airport.

The operation handles everything from general airport services, air traffic services, aviation security, supervision of construction projects and safety and quality issues. Operations are based on a service agreement between the company and the Ministry of Transport and Local Government (now the Ministry of Infrastructure), which determines the level of service for each airport and how they are operated and maintained. This is due to the fact that the airports in question are part of the public transport system owned by the state.

The Duty Free Store

The Duty Free Store operates four stores selling duty-free goods under an operating licence from its parent company, Isavia. Three are for departing passengers and one for arriving passengers. The Duty Free Store's headquarters are located at Keflavík International Airport.

Scope of Operations at Keflavík Airport

Two factors have the greatest impact on the scope of Isavia's operations: the number of flight movements and the number of passengers. Isavia's income from Keflavík Airport can be attributed first and foremost to the airlines that land at the airport, concession income from food and beverage and retail outlets as well as other income from renting facilities.

Two difficult years of the pandemic marked the beginning of this year at Keflavík International Airport. By the beginning of January, restrictions had been tightened significantly and the Civil Protection Agency declared an emergency level for the third time since the pandemic began due to the spread of the Omicron variant. But on 25 February, things started looking up. It was then announced that all official restrictions due to COVID-19 were lifted, both domestically and at the borders. Since then, the airport's scope of operations has returned to normal.

This year, great emphasis was placed on restoring the operations of the airlines that operated from here before the pandemic. Most of them returned in 2021, and two airlines returned and one new airline began operations in 2022.

26 airlines flew to and from Keflavík International Airport last summer, which is the same number as in the summer of 2019, before the COVID-19 pandemic began. In July 2022, the number of passengers recovered was 101% compared to the same month in 2019. For the next four months, or until November, the number of passengers exceeded the number of the same months in 2019. The number of passengers in December was slightly below the number of the same month in 2019.

20 airlines will fly here this winter, or four more than the previous winter (2021–2022). The number this winter is the highest it has ever been, and this is thanks to a lot of work to balance out seasonal fluctuations at the airport.

Overall, the year turned out much better than was forecast. Passenger recovery was 181% compared to the previous year and was 86% from 2019. 6.1 million passengers passed through Keflavík International Airport in 2022, whereof foreign tourists were nearly

Isavia ohf.'s Executive Board



Sveinbjörn Indriðason
Chief Executive Officer



Anna Björk Bjarnadóttir
Chief Service and Operations Officer



Bjarni Örn Kærnested
Chief Digital Development and IT Officer



Guðmundur Daði Rúnarsson
Chief Commercial and Airport Development Officer



Ingibjörg Arnarsdóttir
Chief Financial and Human Resources Officer



Elísabet Sverrisdóttir
Executive Assistant

Subsidiary Operations



Kjartan Briem
Managing Director of Isavia ANS



Sigrún Björk Jakobsdóttir
Managing Director of Isavia Regional Airports



Þorgerður Þráinsdóttir
Managing Director of The Duty Free Store

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1.7 million and Icelandic passengers were around 600 thousand. Of the 94 destinations this year, London, Copenhagen, New York, Paris and Boston were the most popular.

In 2022, the percentage of transfer passengers at Keflavik International Airport was 25%, which is somewhat lower than before, but the percentage of transfer passengers reached its peak in 2018, when it exceeded 40%. The minimum flight connection time for passengers at Keflavik Airport is 25 minutes.

Icelandair has long used the airport as a connecting point between Europe and North America. In April, Play began operating flights to North America and simultaneously, connecting flights through Keflavik.

In 2023, we expect 26 airlines that will fly to over 94 destinations. In addition, 13 new connections will be added to Keflavik International Airport's route system.

Cargo flights are in rapid growth at Keflavik International Airport. Three airlines currently operate there with scheduled cargo flights: Bluebird, DHL and Icelandair Cargo. Icelandair Cargo added two B767 cargo planes during the year. The company began flights to Chicago and New York at the end of 2022 and will start direct flights to Los Angeles in the spring of 2023. We are aiming for further development and expansion of cargo flights at Keflavik International Airport in the coming years.

Keflavik International Airport has two runways, which are 3,054 m and 3,065 m long. Six handling agents work at the airport: Icelandair, Airport Associates, South Air, Iceland Jet Center, ACE and Iceland Aero Center.

Passenger and Traffic Forecasts 2023

The number of passengers through Keflavik International Airport and the number of flight movements (passenger and cargo flights) are the two factors that have the greatest impact on our activities. That's why we make forecasts about both, that help us respond to a dynamic operating environment.

The forecasts are prepared in close co-operation with the airlines that fly to Keflavik International Airport and are based, i.a. on airline business hours, on information from Isavia's systems, discussions and news about airline plans.

The forecast for 2023 predicts 7.8 million passengers will travel through Keflavik International Airport. This is the third highest number of passengers through the airport in one year since its inception. It is also assumed that transfer passengers will be 27% of the total number of passengers, or 2.2 million.

The passenger forecast is also used to predict the number of tourists to Iceland. In 2023, 2.2 million foreign tourists are expected. If that prediction comes true, 2023 will be the second biggest tourist year in the country's history. Only once before have more people come to Iceland, when 2.3 million visited us in 2018.

A traffic forecast for the Icelandic air traffic control area is prepared at least annually by a working group called the North Atlantic Economic Financial Forecasting Group (NAT EFFG). The forecast covers air traffic in the North Atlantic, including all traffic in the Icelandic air traffic control area. The forecast is used, i.a. for income and cost estimates. Isavia ANS has a representative in the group, along with all service providers and representatives of associations using the service in the North Atlantic.

Passenger and traffic forecasts are prepared and published at the end of each year

New International Flight Connections at Domestic Airports

The promotion of new gateways to Iceland is a project that Isavia Regional Airports is involved in along with Business Iceland, Austurbrú and Visit North Iceland. The aim is to draw attention to the Aviation Development Fund of the Ministry of Culture and Tourism, which supports the development and promotion of new and international flight routes to and from the airports in Akureyri and Egilsstaðir. Airlines can apply for development and marketing grants to the fund, which makes it easier for them to establish new connections.

Business Iceland and Isavia Regional Airports have presented the project in many parts of the world, including at the Routes Europe conference in which representatives of airlines from all over the world participate. The project has been well received, and two new airlines, Edelweiss and Condor, are now aiming to start regular international flights from Akureyri and Egilsstaðir to continental Europe. They join Transavia Holland and Niceair, which began scheduled flights from Akureyri to Copenhagen and Tenerife this year. The airline has further growth in preparation for 2023, and their initiative in this matter is an important model for other airlines that want to follow in its footsteps.

Business Iceland has also managed the promotion of the project in foreign and national media. Discussions and interviews with the CEO of Isavia Regional Airports have appeared in many of Europe's main aviation magazines where the North and East are presented as new gateways to the North Atlantic.

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Strategy and Future Development

Isavia is a publicly owned company and operates under legislation on operations and the state's Ownership Policy. The company's strategy is formulated by its Board of Directors and Executive Board within this framework. Isavia's subsidiaries set their own corporate strategies but work in accordance with most of the parent company's support policies. This in accordance with Isavia ohf's subsidiary ownership policy. The Executive Board of each subsidiary is responsible for the implementation of its strategy.

Isavia is a service company which plays the important role of managing the operation, maintenance and development of the infrastructure on which Icelandic aviation is based, its connection with the rest of the world and aviation between continents. Its operations are therefore of considerable national interest and the company's employees make every effort to conduct their work in a safe and efficient manner in harmony with the environment and community. Our policy is aimed at delivering a leading airport that will grow sustainably and support the nation's prosperity.

Isavia ohf.'s Strategy

Isavia ohf.'s purpose is to lead an airport community that increases the quality of life and prosperity in Iceland. In this, the operations of Keflavík International Airport play a key role for the country's infrastructure and the responsibility that comes with the operations for a sustainable future.

Our vision is to connect the world through Iceland. It includes increasing the number of flight connections between continents and thereby improving the access of citizens to foreign markets, which contributes to the increased competitiveness and prosperity of Iceland.

Today, work is being done to sharpen the company's business model and increase understanding of the value chain of the operations. We are also working on a clear action plan for the future and the implementation of strategy accounting that will support the achievement of set goals. The actions are part of making the company more strategic in management.

Isavia adheres to four of the United Nations' Global Goals (8, 9, 13 and 17) but also works with other Global Goals in its support policies.

Isavia's Strategy Circle

The Strategy Circle is a compass for the company's priorities for the future. It connects seven strategy focuses that lead the company to its future vision and reflects work towards sustainability in all areas of operations.

Isavia is one of many companies operating at Keflavík International Airport. The company is a leader in the airport community and takes the initiative to work purposefully with its business partners for joint success as a whole. In that co-operation, we put our customers first by offering a unique experience and efficient, smart and good service.

Isavia's Strategy Circle and its related objectives have been presented to all employees and are now part of the company's new recruit presentations.

Keflavík International Airport is one of Iceland's key infrastructures, so the emphasis is on building and maintaining its infrastructure for the long term and constantly improving the use of resources with profitability and long-term interests as a guiding principle. Simultaneously, innovation and continuous development is promoted in its operations. We are guided by sustainability in everything we do and focus on being a role model in safety and protection matters.

A clear strategy and vision is the key for employees to connect their work to the strategy and follow it. A company culture where communication and collaboration between employees, based on constructive and honest communication, is the basis for the company to succeed in an ever-changing environment. Isavia has been a part of a transformation project with foreign consultants called Together on a New Journey from



CULTURE STATEMENT
- Our behavioural guidance

We are **respectful** and **honest** with ourselves and others. We have **fun** in our daily work, are **brave** and **constructive** and take **responsibility** for our own performance.

Together we will succeed.

mid-2021. The journey is intended to shift the company's culture to a constructive culture to support the successful implementation of the company's strategy. All Isavia employees participate in the journey and work in accordance with the company's cultural statement, which is in the spirit of the ideal culture we work towards.

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Strategic Metrics

The key metrics of Isavia ohf. were updated during the year in order to systematically work towards the success of the strategy. The company's management worked on proposals for strategic metrics that were approved by the Executive Board. It was decided to work according to five key metrics.

Strategy metric		Objectives for 2023
 <i>Profitable company based on strong infrastructure</i>	Return on equity will be over 10% in 2027.	It will increase from 1.9% to 3.2% in 2023.
 <i>We are customer centric</i>	The percentage of satisfied customers will be 85% in 2027.	Passenger satisfaction will increase from 84% to 85% in 2023 for passengers. Measurements will begin on the satisfaction of other customers.
 <i>We achieve success as a team</i>	Employee satisfaction will exceed 8 out of 10 in 2027.	It will go from an average of 7.5 to 8.0 in 2023 and maintain there.
 <i>We are guided by sustainability in everything we do</i>	Keflavík International Airport's carbon footprint will be below 1,000 tonnes of CO ₂ in 2027.	It will decrease from 2,185 tonnes to 1,760 tonnes by the end of 2023.
 <i>We promote a safety culture</i>	There will be no serious safety, security or occupational health incidents at Keflavík International Airport in 2027.	There will be no serious incidents in the safety, security and occupational health and safety categories attributable to Isavia's operations and infrastructure at Keflavík International Airport in 2023.

Isavia ANS Strategy

The Isavia ANS Strategy was approved by the company's Board in the autumn of 2021, and subsequently Isavia ANS placed great emphasis on implementing as many aspects of its strategy as possible. The role of Isavia ANS is to be an airlift in the north, and the company's strategic goals are:

- A known company with a positive image
- Outstanding in core activities
- Happy employees and a desirable workplace

In 2022, Isavia ANS set goals for the subsidiary's Sustainability Policy, which aims to support carbon-free operations by 2030.

Isavia Regional Airports Strategy

The vision of Isavia Regional Airports is a strong airport operation that lays the foundation for an improved quality of life throughout the country. Strategic priorities until 2027 are:

- Solid operation: the company's operation is based on a solid foundation and a powerful group of employees, which creates scope for the long-term development of domestic aviation.
- Visibility: The unique position of Isavia Regional Airports is clear among stakeholders and there is an understanding of the importance of the operation.
- Environment and sustainability: The company builds a sustainable operation, supports the preparation of energy transition in aviation and thus contributes to environmentally friendly transport.
- Communications and co-operation: The company is an active participant in the promotion of aviation as a means of transport.

The Duty Free Store's Strategy

The Duty Free Store's Strategy was prepared in 2022. Roles, priorities for the next five years, values and vision were defined. A number of employees from all departments within the company participated in the formulation of the strategy to ensure that it reflects the company's operations as a whole. The role of the Duty Free Store is to create value for customers and the owner. Strategic priorities are:

- The right product in the right place
- Customer experience
- An attractive workplace
- Strong infrastructure

The Duty Free Store has set goals for sustainability in line with Isavia's Sustainability Policy. The company plans to become carbon-free by 2030, have all packaging of sales products in environmentally friendly packaging by 2030, and increase and make more visible sustainable options for customers in stores. To achieve these goals, the Duty Free Store has set an ambitious action plan for the coming years.

Support Policies and Responsible Operations

The support policies coordinate actions between Isavia's parent and subsidiary companies. They are presented to emphasise specific issues and increase the likelihood of success through detailed operational goals, metrics and actions. Support policies always meet minimum legal obligations but go further in accordance with the company's strategy.

Isavia has presented support policies in accordance with the overall strategy of Isavia ohf. and subsidiaries and in accordance with Codes of Conduct that support responsible practices towards people, the environment and the economy.

The Executive Board of the parent company and the managing directors of subsidiaries meet quarterly to discuss both policy-related issues and other issues in order to coordinate policy-related actions and responsibilities. The Boards of the companies regularly discuss issues related to finances, the company's investments, sustainability and social responsibility. Regular communication and conversation with customers and business partners who work within the airport community and the local community is also an integral part of the operation.

The company's Code of Conduct was updated in 2022. This Code of Conduct applies to employees, management and the Boards of the Group's companies and covers all aspects of the company's operations, employees' events and professional travel. It is specifically stated in the Code of Conduct that decisions must be made in a sustainable manner, that work is carried out in accordance with the ten principles of the United Nations, the United Nations' Global Goals and that the same requirements are made to suppliers in accordance with the Code of Conduct for suppliers. When making decisions we endeavour to ensure that we are always complying with current laws, regulations and international conventions that the company operates under.

The Code of Conduct specifically addresses the importance of operating in accordance with proper and sound business practices and endeavour at all times to combat corruption, bribery, blackmail and embezzlement. Employees must be mindful of personal data protection and respect the feelings, privacy and private lives of others. Emphasis is placed on treating colleagues and business partners with respect. Bullying, sexual harassment, gender-based harassment or any kind of violence in not tolerated in any circumstances. We do not discriminate on the basis of gender, religion, beliefs, ethnic origin, race, colour, financial situation, origin, disability, age or on any other grounds.

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We are guided by sustainability in everything we do. We show initiative and work strategically towards being a role model of sustainability in Iceland. We work continuously to increase sustainability in the entire airport community, share knowledge and collaborate closely with the local community. In this way, we build long-term added value for the economy as a whole.

We emphasise sustainable decision-making and working towards progress and continuous improvement in the field. Isavia’s Sustainability Policy emphasises the company’s commitment to environmental protection, minimisation of negative environmental impacts due to operations, sustainable procurement, good use of resources, reuse, recycling and strengthening of the circular economy.

Infrastructure is built in a sustainable way, and we minimise the environmental impact of construction and operations. The company’s goal is carbon neutrality in its own operations by 2030 at the latest. This goal will be achieved through co-operation and active monitoring of environmental factors, energy transition and carbon offsets as needed. In the company’s operations, the greatest success in reducing the carbon footprint is achieved through the energy replacement of machines and vehicles.

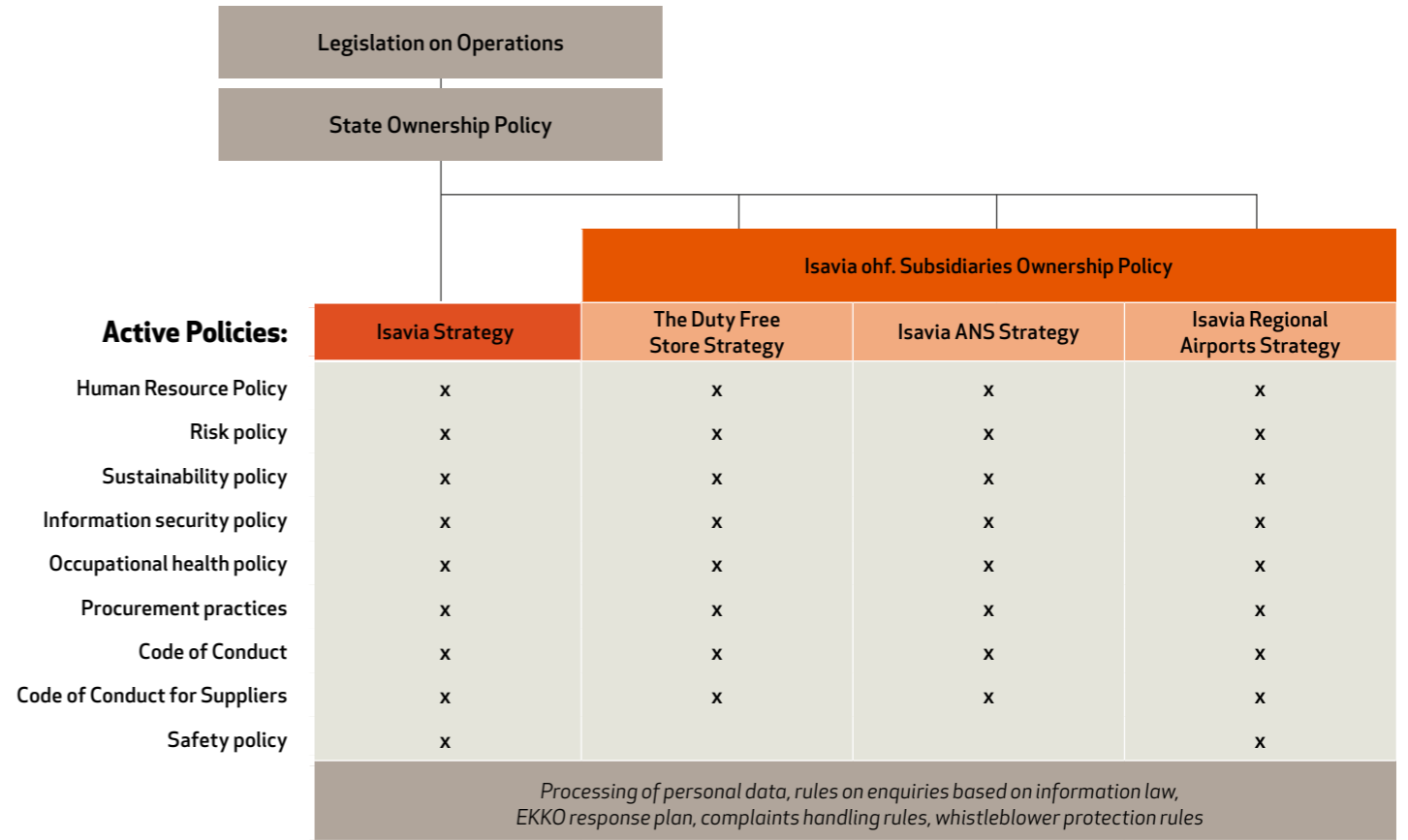
More information on environmental issues can be found in the sustainability section of the report.

The company’s Human Resources and Equality Policy was updated in 2022. In them there is even more emphasis on equality and that all employees receive equal opportunities and possibilities. It specifically discusses that all employees receive equal pay and enjoy equal terms of employment for the same jobs or jobs of equal value regardless of gender, as the company has an equal pay system in accordance with the requirements of the equal pay standard and Icelandic law at all times.

There is a special support policy on occupational health and safety where Isavia undertakes to be a role model in safety, health and occupational issues by promoting a safe and healthy work environment for those who work in and visit the operating units of the company. The policy is part of preventing accidents, working towards good staff facilities and ensuring a healthy working environment. We encourage and support our employees in adopting healthy lifestyles and the company provides welfare services. Emphasis is placed on working on safety and occupational health issues in collaboration with other stakeholders at Keflavik International Airport.

The HR Policy is discussed in more detail under the Human Resources section of the report and the Occupational Health and Safety Policy under the section on it.

The Code of Conduct for suppliers are set in accordance with the ten principles of the UN Global Compact and the conditions of the International Labor Organization (ILO). Suppliers of the company



are required to meet the Code of Conduct as a minimum, and they must impose the same demands on their suppliers. A suspicion of the infraction of these guidelines must be reported to Isavia. The Code of Conduct is an attachment to all the company’s contracts. If requested, suppliers need to confirm that they adhere to the guidelines. The Code of Conduct addresses freedom of association and the right to negotiations, forced labour, child labour, discrimination, wages, working hours, health and safety, human rights, environmental issues, business ethics and conflicts of interest.

Procurement and supplier communication is discussed in more detail under the supplier section.

Support policies are set and reviewed in accordance with formal procedures and are approved by the CEO or the Board, as appropriate. The company’s Code of Conduct and the suppliers’ Code of Conduct fall under the same process.

The CEO, or individual Chief Officers, are responsible for reviewing and overseeing the progress of different support policies, and all Chief Officers are responsible for their implementation in their divisions. The CEO is the supervisor of the Sustainability Policy, the Isavia Code of Conduct and the supplier Code of Conduct. The Chief Service and Operations Officer is the supervisor of the Occupational Health and Safety Policy. The Chief Finance and Human Resources Officer is the supervisor of the Human Resources and Equality Policy, the Policy on Comprehensive Risk Management and Procurement Procedures. The Chief Digital Development and IT Officer is the supervisor of the Information Security Policy.

Valid policies are presented within the company and published on the company’s external website: <https://www.isavia.is/fyrirtaekid/um-isavia/fyrirtaekid/stefna-isavia>

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Sustainability Policy

We are guided by sustainability in everything we do Isavia's Sustainability Policy is one of the company's support policies and is also one seven strategy priorities in Isavia's Strategy Circle. The policy, objectives, criteria and action plan that accompanies it should support our success in sustainability.

The Sustainability Policy describes the balance between economy, environment and society. The Sustainability Square is divided into four components that are most important to Isavia, with the emphasis on the overall strategy and the activities of the company. The environmental component has been divided up and climate issues have been highlighted in order to draw attention to the importance of reducing the company's carbon footprint.

The company's goal is for Keflavik International Airport to become carbon-free by 2030. In order for this to become a reality, we are working according to an ambitious action plan until the year 2027. Isavia's goals, metrics and actions to achieve sustainability are set out in a five-year sustainability action plan that was submitted to the Environment Agency of Iceland at the end of 2021, as required by law. Innovation in the field of sustainability is monitored and investments made as necessary so that Keflavik International Airport is prepared for a sustainable future. Continuous progress and improvements are being made in the field.

Goals and related improvement projects were selected with reference to the nature and strategy of the company, comments from external stakeholders, the UN Global Goals and related government priorities, as well as in climate issues. Account was also taken of improvement opportunities linked to GRI aspects and to the company's commitments to the principles of the UN Global Compact and to an incentive programme of which Isavia is a member. Account was also taken of the sustainability journey for airports issued by ACI, the International Airport Association.

The implementation of the policy can only be achieved through close co-operation with the different units of the company, with subsidiaries on goals and actions and in co-operation with the airport community at Keflavik International Airport. The company has a certified environmental management system, and therefore the company's Executive Board and Board of Directors are regularly informed about different aspects of sustainability and concerns that arise related to them. The CEO is responsible for the group's Sustainability Policy, but the implementation is handled by the director of corporate strategy and sustainability on their behalf. All Chief Officers are responsible for the implementation of the policy. Actions in sustainability are followed up with responsible parties in policy accounting regularly throughout the year. This increases the likelihood that the expected results will be achieved. The responsible parties for the actions are the company's Chief Officers and Directors.

Sustainability Policy Action Plan

Work was carried out systematically according to the action plan in 2022 and actions were followed up in the company's policy accounting. About 80% success was achieved in the progress of actions and just under 70% were fully completed. Other actions were transferred to the year 2023, as some actions were set for more than one year. A total of 24 actions out of 36 were completed in 2022 in the four categories covered by the Sustainability Policy. In 2023, work will be done on 37 actions in sustainability.

The action plan was reviewed by the Executive Board at the end of 2022, where it was agreed to work towards the metrics and actions contained in it for 2023. Detailed information on Isavia's Sustainability Policy and action plan can be found here: www.isavia.is/fyrirtaekid/um-isavia/samfelag-og-umhverfi/samfelag/sjalfbaerni

Organisation and Development

We follow clear Master and Development Plans. Such plans do not exist in Icelandic law, but are known from abroad. We use the plans to present our intentions regarding expansion and development. Their aim is to communicate building plans and future vision for the airport to stakeholders, setting out phasing and flexible plans that take into account passenger and traffic forecasts, to stakeholders. The airport's Masterplan and Development Plan have been approved by Isavia's Board of Directors after having been considered by the Executive Board.

When formulating its Masterplan, Isavia has endeavoured to foster good relations with the neighbouring community. Consultation meetings are held when devising the masterplan, and its progress is regularly presented to stakeholders and the media. The Masterplan was first officially presented in 2015. It is valid for 25 years and our goal is to update it every five years. Work on the update was well underway in 2020 when it was postponed due to uncertainty in the aviation world. In 2022, the work was resumed and an updated Masterplan was presented to the partners at about thirty consultation meetings, with local authorities, airlines, operators, the Coast Guard, fire brigade and numerous other stakeholders.

The updated Masterplan was then presented to Isavia's Board for approval in autumn 2022 and will be officially published in March 2023.

The Masterplan deals in particular with the cost estimates and time schedules for the construction work and analyses changes in passenger patterns and flight traffic in the context of building plans.

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Assessment of the Environmental Impact of Development at Keflavík International Airport

Isavia decided to request authorisation from the National Planning Agency to assess the overall environmental impact of the construction work at Keflavík International Airport. This was done after consultation with the National Planning Agency and taking into account the benefits that the environmental impact assessment process can deliver. In its assessment of the environmental impact the airport has gone further and has demonstrated that the overall impact of its Development Plan exceeds the requirements laid down in environmental impact assessment legislation.

The environmental assessment report details the projects that Isavia has planned until 2032 and their main impacts. Options discussed are two plus a no change option. Different levels of development are considered based on assumptions about the development of the volume of passengers until the year 2032, i.e. whether a new pier, Austurfigur, is planned or not. A no change option means that there will be no construction.

In the first stage of the assessment, which was carried out in 2019, an assessment plan was formulated, in which the project was defined, the main influencing factors of the project were explained and the environmental factors that will be emphasised were highlighted. At the same time, an account was given of the research and data that would be collected to assess the environmental impact of the options available.

The National Planning Agency presented the assessment plan to the public and sought comments from consulting bodies. The public, stakeholders, license providers and professional organisations had the opportunity to present comments. The National Planning Agency gave its opinion on the assessment plan with instructions on the processing, content and presentation of the environmental assessment report.

The second part of the assessment was mostly completed in 2022 and an environmental assessment report was prepared. Work is being done to gather data and assess the environmental impact of the project in accordance with the assessment plan. The results of the assessment are reported in an environmental assessment report that addressed, i.a. the main environmental impacts of options, the results of studies, the compatibility of each option with existing plans, along with proposals for countermeasures and monitoring. Based on the results of the environmental assessment and a comparison of the options, the developer makes a decision and gives reasons for which one they recommend.

The environmental assessment report goes through a formal review process at the National Planning Agency, and comments are requested from professional organisations and license providers. In addition, the organisation presents the planned projects to the public. Everyone is allowed the opportunity to comment on the assessment results and



make suggestions. The evaluation process will be based on consultation with stakeholders and concerned parties.

This process is expected to be completed in 2023.

Future Development

There are interesting but challenging times ahead. The aviation industry has always been sensitive to fluctuations in its external environment, and this is especially true now that climate change has become tangible and the world is still recovering from the great uncertainty that followed the COVID-19 pandemic.

Isavia's operations are extensive and complex in many respects. External changes, both foreseen and unforeseen, can increase the complexity of the operations and call for solutions that require imagination and diligence on our part. It is also important to remember that all challenges contain opportunities, as the market's increased emphasis on environmental issues has already shown us.

In order to succeed, we need to increase collaboration with our business partners while embracing opportunities in automation and technological advancements with our customers' interests at heart.

At the same time, the labour market is changing and younger people want to perform their work in a different way than previous and current generations, and we want to be able to respond to that.

When planning airport operations for the future, it is not enough to look at passenger development as one isolated factor, but also to look at the factors in the external environment that influence passengers and airlines to choose Keflavík International Airport over other airports in Europe. We are in competition with foreign international airports and need to be able to react quickly to changes.

The following factors are among those that are believed to influence whether people choose flying as a mode of travel and which connecting airports and destinations:

Sustainable Airport

People around the world are more aware of global warming than before. With increased knowledge of the effects of climate change, people's view of the importance of sustainability is increasing. People are therefore choosing their means of transport and airports according to carbon values. People are increasingly choosing to reject airports that do not take responsibility in climate issues. Companies' financing options depend on their sustainability and climate actions. Regulations and restrictions regarding airport carbon emissions are being tightened.

Climate change has already begun to affect the operations of airports in Iceland. At the domestic airports, e.g. in Akureyri and Egilsstaðir, floods are starting to occur and at Keflavík International Airport, icing due to fluctuations in temperature has become a more common issue.

Development of Infrastructure

The market is now looking for ways to make energy transition in aviation a reality for the future. The infrastructure of airports around the world needs to take into account the trend that in the coming years, new energy sources will replace fossil fuels. Work is being done on the electrification of equipment and infrastructure, the development of more fuel-efficient aircraft, experiments with electricity as an energy source for smaller aircraft and hydrogen for the machines of the future. Requirement to refuel aircraft with the addition of sustainable aviation fuel (SAF) will begin in 2025. Airport infrastructure needs to support this development so that services can be provided in accordance with new needs

Digital Transformation and Artificial Intelligence

It is likely that in the coming years, artificial intelligence will replace automation. The artificial intelligence reads information from the various digital infrastructure and devices that are in use at the airport and manages the flow through the airport so that there are no bottlenecks that reduce passenger satisfaction. This will make the passenger experience better by providing a relaxed journey through the airport. Post-Covid, passengers are demanding more contactless services, and advances in digital transformation are also supporting that development.

Changes in Purchasing Behaviour

Customer needs are becoming more diverse. At the same time, technology advances and target groups change. The speed has increased and that calls for the ability to be flexible. An increase in online shopping among passengers is predicted, and therefore a decreasing need for large stores at airports. It is believed that the internal organisation of airports will change in the future to meet the needs of passengers, including facilities where goods are picked up and spaces where people can enjoy refreshments and socialize while waiting for a flight.

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Value Creation

Our operations include various social and economic impacts that are not part of the company's finances. These are valuables that are created as a result of the resources that Isavia contributes to its operations and result in social value that contributes to an increased quality of life in Iceland.

Activities that Create Value for Society

Isavia ohf. is a service company that plays an important role. We manage the operation, maintenance and development of the infrastructure on which Icelandic aviation is based, its connection with the rest of the world and aviation between continents. We are the largest gateway for airlines and passengers into the country, which creates value not only for tourism in Iceland, but for the entire country through increased prosperity and quality of life.

Our activities are aimed at serving airlines and passengers and leading the airport community at Keflavík International Airport in close co-operation with our business partners. The goal is to create a unique experience for those who travel through the airport.

We contribute resources to our activities that, through the operation of the company, create value for different stakeholders. This can be in the form of growth and business opportunities, increased employment opportunities, tax revenue, diversity, culture and in the sharing of knowledge. We work with the government, the local community and the airport community to achieve success in climate issues and energy transition and the United Nations Global Goals, both here at home and in co-operation with foreign airports.

Resources and Impact

Isavia creates value by owning and developing land around Keflavík Airport. The company maintains two over three thousand meter long runways at Keflavík Airport, along with buildings, equipment and devices to service passengers. We also manage the development of facilities for passengers and service providers, e.g. with the expansion of the terminal. We also provide a check-in and baggage sorting system, facilities for check-in partners, security screening, parking and passenger services so they can easily get where they're going. The operation of the airport is reliable as the airport is open 24 hours a day.

Our people are the company's greatest resource. Isavia ohf. has 735 employees on the payroll. Keflavík International Airport is also the

workplace of 7,485 people through various partners. We take good care of our people by respecting human rights, promoting the health and safety of customers and employees, and constantly working towards a better workplace environment.

Our employees have important knowledge and experience in the development, operation and service of airports and thus plays an important role in building the airport's competitiveness. Their specialisation covers airport operations and services, from passenger flow, aircraft rotation speed and infrastructure maintenance. Isavia operates its own school to build the skills of the company's employees as well as to promote the increased skills of all employees at Keflavík Airport.

A total of 6.2 million passengers passed through Keflavík Airport in 2022. 30 airlines passed through the airport during the year, which have connections to 94 destinations around the world. Keflavík International Airport is rated by passengers as one of the 7 best airports in Europe according to a survey conducted by the Airport Council International (ACI) in 2022. Over 250 companies operate or provide services at the airport, and we are also in contact with a large number of suppliers. Isavia rents out facilities for various services at the airport and also offers operating licenses to restaurants and shops. This is how we work with our business partners to create value for their customers.

Isavia's operations are extensive and therefore inevitably have an impact on its environment. The operation requires resources, e.g. water, heat and electricity, it emits greenhouse gases, dumps into the ground and uses land for the development and operation of the airport. The carbon footprint of the airport's direct operations is primarily due to the fuel consumption of equipment used to maintain runway safety. We work systematically to reduce the negative impact and increase the positive impact of our own activities and the activities of those who are members of the value chain. An example of this is the joint project of the entire airport community at Keflavík Airport on ways to reduce the carbon footprint of the airport's operations as a whole. Targeted co-operation and collaboration leads to success

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Social value Creation from the Operation of Keflavík International Airport

Isavia has assessed the social value of Keflavík Airport's operations in order to work more purposefully towards success in social value creation in co-operation with business partners and suppliers. The project Value2Society was used for the assessment and social value was measured in positive and negative value. The results indicate how Keflavík Airport's operations are fulfilling the company's purpose of increasing the quality of life and prosperity in Iceland and provide a better analysis of improvement opportunities for the operations. The goal is to maximise the company's profitability and value creation through the entire value chain, while systematically working on improvements in environmental and social issues where human rights and people's quality of life are at the forefront.

When working on Value2Society, we were asked for statistical information on over 70 initiatives of Isavia ohf.'s operations and therefore the information (impact indicators) comes from many layers of the operation.

To better understand the impact of Isavia ohf.'s value creation it is interesting to compare Isavia ohf.'s income in the year 2022 with the social value creation of the same year. Isavia's income was ISK 18.1 billion, social value creation from the direct operation of Keflavík International Airport was ISK 27.6 billion. For every billion in revenue, one and a half billion is created in social value creation from own operations. If the impact of the supply chain is also taken into account, the ratio is one billion in revenue versus two billion in social value creation.

Example of Positive Value

- Job creation from the operation of the airport has an impact on improving people's living standards and reduces costs for the state and municipalities due to less unemployment.
- Targeted development of knowledge among employees not only results in more qualified personnel for the company, but also more qualified individuals in the labour market, whose knowledge and skills have been built up. Increased knowledge also results in increased safety at the airport and other aspects of the operation.

Example of Negative Value

- The emission of carbon dioxide CO₂ has both negative environmental impact and negative economic impact.
- Acoustics can affect the mental health of people in the vicinity of the airport.
- Employee turnover affects recruitment costs and productivity when an employee leaves and a new one takes over. Unemployment affects social costs.

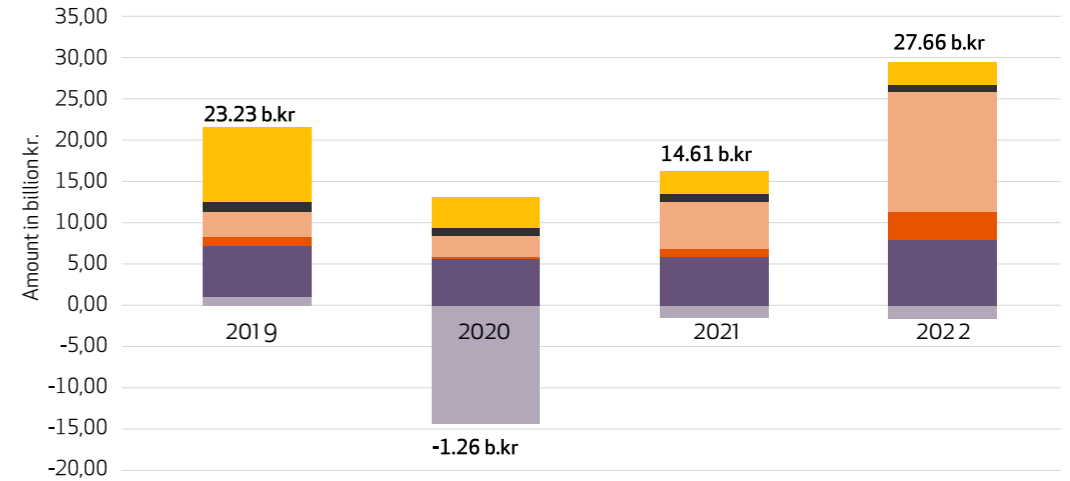
Social Value in the Balance Sheet

Social value explains how much additional value a company provides beyond its finances. A company's net social income is the net value for society that the company creates through direct operations. With this, Isavia is taking a big step towards being prepared for further upcoming requirements regarding non-financial information.

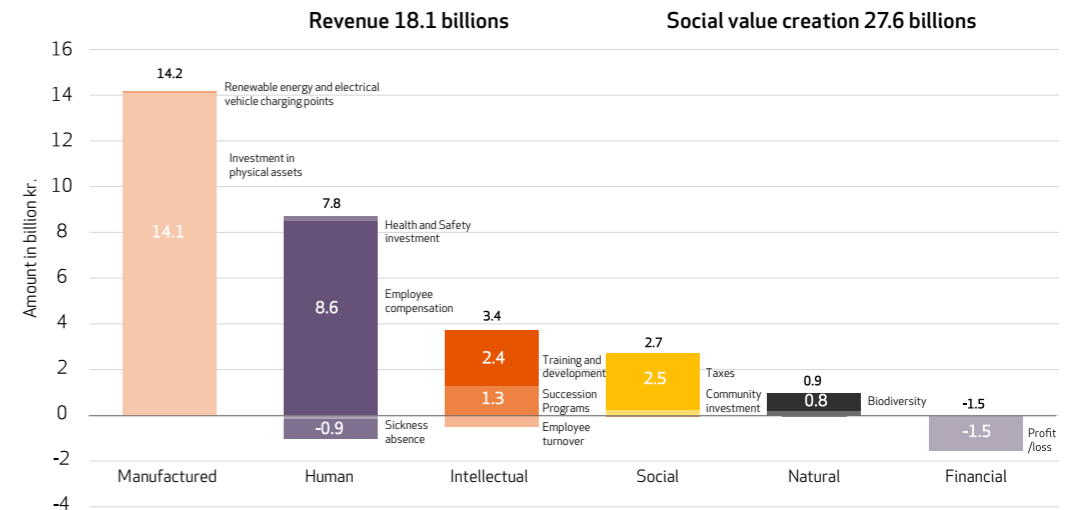
Isavia's Supply Chain

Isavia's supply chain was also analysed based on social impact. Suppliers were assessed based on which supplies or inputs were purchased and from which country with regard to positive and negative impact. The analysis was performed using Route2's Extended Multi-Regional Input Output Model. The model calculates the global, economic, social and environmental impact of production of inputs from Isavia's suppliers. The analyses covers 191 countries and between 26-500 sectors in each country. The model then measures and evaluates this impact by translating it into positive economic benefits and/or negative social impact. The results give Isavia an assessment of the impact of its procurement expenditures and thus the opportunity to work with suppliers to minimize negative impacts and maximize positive impacts.

Social Value Creation from the Operation of Keflavík International Airport by years



Social Value Creation from the Operation of Keflavík International Airport 2022



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Material Aspects

Airports are gateways to communities and are often the first impression that visitors have of cities and countries. They provide access to a network which transports people and products almost everywhere in the world and thus play a key role in the business, development and connections between different cultures. With its value creation, the airport operation lays the groundwork for building up the entire community. The operation effects especially the communities in the vicinity of the airports with increased commerce, the development of infrastructure and economic activity.

But the airport operation is also faced with great sustainability challenges. Greenhouse gas emissions, carbon footprint, acoustics, air quality, chemical leaks, threats to biodiversity, security and worker safety and the struggle against human trafficking are among the factors which must be dealt with.

As the factors which Isavia deems important for the company are selected, we consider, on the one hand, the GRI Airport Operators Sector Disclosures and on the other hand, the issues which our stakeholders deem especially important, their expectations towards the company and their assessment of collaboration with Isavia. Consideration is given to the company's operations and to their impact on the economy, the environment, the community and human rights.

Additionally, the overall strategy of Isavia is considered, the obligations of the company regarding the principles of the UN Global Compact, the UN Sustainable Development Goals and the emphases of government related thereto, development and changes in the legal environment, development in provision of information regarding sustainability, as well as the most recent points of emphasis within the aviation industry and comparisons with leading companies.

The Process of Selecting Material Aspects

Materiality analysis for the annual report of Isavia was first drafted in 2018 from interviews with representative parties from all stakeholder groups of Isavia. That analysis has been reviewed annually and updated considering the importance of the issues with which the stakeholder groups of Isavia approach the company and through the systematic efforts of the company to comprehend the objectives of stakeholders.

So far, Isavia has left the research and interviews to a third party, with the last time being 2021, where questions were put to all the stakeholder groups of the company, including our employees. The questions were shaped by the sustainability emphases of Isavia and the factors which arise in communication with our stakeholders, because we see our collaboration with stakeholders as a forum for learning lessons and effecting constant improvements.

As material aspects were prioritised, the results of the latest stakeholders' survey were considered, as was the knowledge which we have obtained since the last publication about the factors within the operation which, on the one hand, have a positive effect and, on the other hand, have a negative effect on sustainability according to stakeholders. The factors are set up on two axes: according to importance for the stakeholders of Isavia and according to importance for Isavia.

As the selection was confirmed, a decision was made to make a few changes to the names of the material aspects for the sake of clarity. Also, new names were thought to better capture the nature of the issues which the factors cover and which underpin their selection by the stakeholders and Isavia.

"Mitigation and adaptation to climate change" is now the name of the factor which covers carbon footprints and carbon offsetting. "Responsible development of infrastructure" covers the factors "eco-friendly buildings", "transport" and "infrastructure". "The circular economy" covers "sorting of waste", as the issue is about more than merely waste sorting. "Responsible utilisation of resources" covers "more economical utilisation of resources and water protection". "Clever solutions and efficiency" better describes the factor "digital technology". "Ethics and good governance" better describes the deeper meaning of "prevention of corruption". "Information security" better encompasses the emphases which underlie the factor "personal data protection", and "human rights" better describes the important factor "human trafficking".

Also, three material aspects were added: "Capable employees and managers" underlines the importance of human resources in our overall operation. "Constructive organisational culture" underlines the importance of a good culture for Isavia and the effects which it has on internal and external stakeholders, among others. "Biodiversity" is a factor which is deemed important in light of the impact which the operation of Isavia has.

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

Isavia ANS is responsible for the implementation of two international agreements on flight navigation services. One is ICAO's Joint Financing Agreement, with the participation of two states, which provides for the financing of flight navigation services within the Icelandic flight information region (Reykjavík IFR). The other is the agreement between the Icelandic and Danish authorities for flight navigation services within the flight information region of Greenland (Nuuk FIR).

Isavia ANS is an active participant in international co-operation and has close contacts with many foreign parties, such as the International Civil Aviation Organisation (ICAO), a United Nations agency. ICAO establishes international standards for all main aspects of civil aviation, monitors the performance of states and service providers and supervises the implementation of the Joint Finance agreement. As regard the company's operations in Greenland and the Faroe Islands, Isavia ANS is monitored by the Trafik- og byggestyrelsen (Transport, Construction and Housing Authority) in Denmark, and as regards collaboration on flight communications services in the North Atlantic, there is close communication with the Irish Aviation Authorities.

Suppliers

Isavia follows the laws and regulations on public procurement and upholds equality, transparency and efficiency. On the Isavia's tender website, you can find information about tenders and related documents, new contracts and terms and conditions related to purchases and invoices. The company's suppliers, both Icelandic and foreign, need to register electronically and fill out the supplier registration form on the Isavia website before transactions take place. Formal market research is employed when the best market information is needed for procurement preparation.

About the Annual Report

Isavia follows the GRI reporting principles in the making of the company's annual report and issues it in accordance with GRI Standards, the standards of the Global Reporting Initiative (GRI), as well as GRI-G4 Airport Operators Sector Disclosures. These sector disclosures deal specifically with the challenges and opportunities faced by airports when it comes to sustainability.

The information that appears in this Annual Report comes from Isavia's information systems and reflects the knowledge that the company had when the report was prepared. The aim of issuing this report is to demonstrate greater transparency and a more in-depth view of the company's activities and their effects on the environment, economy, society and human rights. The issue of the report does not imply that the company fully knows of all the effects it has thereon, nor that social responsibility has been fully adopted at Isavia.

With transparent information delivery, we shine a light on the challenges the company faces at each time and speak of the successes that have been achieved. Isavia complies with the ISO26000 Guideline on Corporate Social Responsibility, is certified according to the ISO14001 Environmental Management Standard and adheres to both of these standards in its sustainability work.

Numerous employees from various departments within the company were involved in drafting the Annual Report and in information gathering.

The information in the report applies to Isavia ohf. and its subsidiaries that appear in the Consolidated Financial Statements unless otherwise stated. Information in the environmental section of the report only applies to Isavia ohf., Isavia ANS ehf., Isavia Regional Airports ehf. and The Duty Free Store ehf. All information in the report applies to the 2022 calendar year.

An external consultant from Ábyrgar lausnir ehf. was recruited to examine the GRI index table of the report and to ensure the quality of the information. The annual financial statements of the company were audited by The National Audit Office.

The publication was focused on improving the presentation of content and meeting the needs of different readers. Isavia welcomes all suggestions on the content and preparation of the report and encourages readers to send suggestions via sustainability@isavia.is, as continuous improvement is an integral part of our operation.

This Annual report is 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.

Sustainable Airports and Airport Communities

Sustainability is a guiding principle in everything that the company does. We take the initiative and work systematically to be exemplary in the field in Iceland. We are constantly working to increase sustainability throughout the airport community, share knowledge and experience and cooperate well with the local community. In this way, we build long-term added value for the economy as a whole.



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Climate Issues

Isavia runs an extensive operation and is responsible for keeping it harmonious with the environment and society. We work strategically towards reduction of greenhouse gas emissions and use our knowledge and experience to develop new and sustainable solutions. We plan on becoming net zero within our own operation as a company by 2030 and operate in accordance with a clear action plan to achieve that.

Greenhouse Gas Emissions

We measure the emission caused by the operation of Isavia and work towards reducing it as much as possible. The scope of our carbon footprint is delineated into three categories. Scope 1 includes direct emissions, which are considered our direct responsibility. Scope 2 refers to indirect emissions because of the use of electricity, heating and cooling. Lastly scope 3, refers to the emissions which take place within the value chain of Isavia.

The carbon footprint of Isavia is, generally speaking, the largest at Keflavik Airport, mostly because of the burning of fossil fuels. Since 2021, the carbon footprint and methodology of calculations is certified and confirmed by an independent third party, in accordance with ISO14064-3.

Direct Greenhouse Gas (GHG) Emissions through Use of Energy and Chemicals

Scope 1

In 2022, direct GHG emissions amounted to 2,345 tonnes of CO₂ equivalents. The emissions are largely due to the fossil fuel use of Isavia.

Emissions from the use of de-icing chemicals amounted to 134 tonnes of CO₂ equivalents and increased slightly. For the first time, emissions from the use of coolants at Keflavik Airport is figured in. The emissions amounted to 42 tonnes of CO₂ equivalents in 2022, increasing slightly.

Direct emissions increased significantly from the previous year, that is by 48%. The increase is due to weather conditions and an increase in the number of passengers. The majority of Isavia's carbon footprint within Scope 1 is related to the use of the large equipment that services runways, aprons and taxiways. Therefore, these emissions are more dependent on weather conditions than passenger transport traffic within the airport area. 2022 had more snow than 2021, which explains this difference in emissions between years.



Indirect Greenhouse Gas (GHG) Emissions through Energy Use
Scope 2

All electricity purchased by Isavia is from renewable sources and comes with confirmed guarantees of origin. Indirect emissions through electricity and hot water use in 2022 totalled 241 tonnes of CO₂.

Other Indirect Greenhouse Gas (GHG) Emissions through Energy Use
Scope 3

Scope 3 includes, among other things, indirect emissions which take place during taking off and landing and passenger travel to and from the airport. These factors are by far the largest contributors to the carbon footprint of Isavia. Scope 3 is 94 times larger than Scopes 1 and 2 combined. This is a big challenge for us because it refers to emissions which don't occur due to our operation but due to the operation of the supply chain. Calculations of their emissions is therefore an important factor in the collaboration regarding developing improvements and solutions which help all parties reduce emissions. Such mapping gives Isavia an overview of the largest emissions factors from the value chain of the company.

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Overview of Emissions According to Scope

Work on the creation of a carbon footprint dashboard for Isavia and its subsidiaries is underway. The dashboard will provide better oversight of all our emissions according to scope, at the same time adding to our understanding and transparency among employees. The dashboard will also meet the increased requirements for calculations of the carbon footprint for companies. New emissions factors will be used, which will result in some changes to our previously calculated carbon footprint calculations.

In 2022, the emphasis was on calculating the carbon footprint of the whole value and supply chain, what we call Scope 3. These are the emissions which take place at other companies and/or parties not controlled by Isavia but belonging to the company's supply and value chain.

Keflavik Airport participates in the Airport Carbon Accreditation (ACA) system, a project run by Airports Council International. The system is customised for the operation of airports and requires extensive collaboration with the main invested parties of the airport when the mapping of the total carbon footprint of the airport takes place. The system is divided into six stages, and we plan to complete the fourth stage in early 2023. Isavia is also a member of ACI Europe's NetZero commitment.

Since 2018, we have carbon offset all direct emissions from the operations. Since 2021, we have also carbon offset other operating factors which fall outside Scope 1, such as the business trips of employees and actions related to waste disposal. It was decided to use certified carbon units that meet ACA requirements.

Energy Use

Direct Energy Use

Within the operation of Isavia, fuel use is the most substantial factor with regard to GHG emissions from direct energy use. It is, to the largest extent by far, accounted for by the servicing and maintenance of the runways and operating areas of the airports. The extent of the emissions can therefore differ from one year to the next.

We plan on phasing out fossil fuel use by our cars, machinery and equipment of Isavia. So far, however, the technological solutions necessary for replacing all the equipment which we must use in our daily operation have not yet been developed. While we wait, we will use biodiesel to reduce fossil fuel use and our carbon footprint. The biodiesel is certified as sustainably produced. With its use, the carbon footprint per each litre of fuel is reduced by 99%. To obtain experience of the use of biodiesel, we will use it instead of about 30% of the estimated fuel use of 2023. Our goal is that in the next few years, 100% of the machinery and equipment of Isavia will run on biodiesel.

Isavia's Carbon Footprint (tCO ₂ e)	2018	2019	2020	2021	2022
Scope 1					
Fuel use	2,717	2,605	2,295	1,550	2,345
De-icing	153	235	144	115	134
Refrigerants				41	42
Total Scope 1	2,870	2,840	2,439	1,705	2,521
Scope 2					
Electricity & heating	247	257	235	233	241
Total Scope 2	247	257	235	233	241
Scope 3					
Waste	66	94	86	122	166
Well to tank - Fuel	623	598	527	357	542
Electricity - Transmission and distribution	7	7	7	7	7
Wastewater*				56	72
Business Travel				77	297
Purchase of goods and services		18,654	18,475	19,555	53,978
Employees travel to and from work*				420	392
Staff travel of other operators to and from KEF				3,970	3,735
Passenger travel to and from KEF	80,168	69,762	15,821	23,234	53,629
Landing and takeoff at KEF	107,882	82,820	24,231	34,669	63,304
Other operators at KEF				1,864	2,429
Total Scope 3	188,747	171,935	59,147	84,331	178,550
Total Scope 1,2 and 3	191,864	175,032	61,821	86,269	181,312

*Isavia ohf. only

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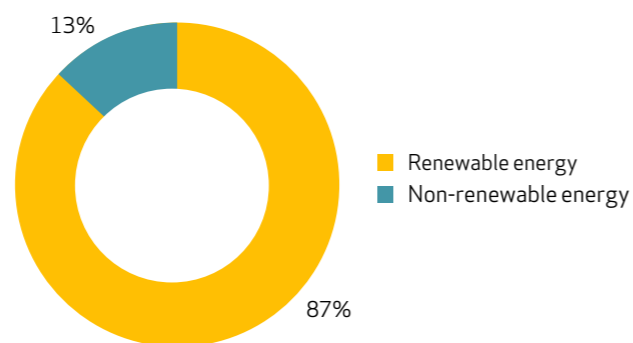
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Breakdown of Total Energy Use of Isavia in kWh in 2022



The fossil fuel use of Isavia increased significantly from last year, which is explained by weather conditions and an increased number of passengers around the airports of the company. This year, the amount of snow at Keflavík Airport increased by around 40% from the previous year, and 7,783 machine hours were worked in 2022, for clearing runways, which is a threefold increase from the previous year.

Our action plan for up to the year 2030 includes a detailed replacement plan for all the mechanical equipment within our operation which runs on fossil fuels. The plan deals effectively with the challenges which we face in eliminating GHG emissions from the specialised machines of the airport.

Indirect Energy Use

Indirect energy use is related to the utilisation of electricity and hot water. The electricity use of Isavia increased slightly from the previous year, which can be traced back to an increase in business and a boost in the number of passengers after travel restrictions due to COVID-19 were lifted. In the next few years, the electricity use of the company is expected to increase, both due to the expansion of Keflavík Airport and energy switching.

Monitoring of the electricity use of buildings will be increased in the coming years. This involves measuring use within individual systems or users to reduce energy use. It also includes the implementation of a comprehensive energy utilisation system which will compile information on all use of electricity, water or other energy. Such a system will enable the compilation of all documents regarding use within Keflavík Airport Terminal and lead to more efficient energy use in the future.

Use of hot water increased slightly from the previous year, by about 4%, and amounted to 656,993 m³ in 2022.

Electricity Consumption by Isavia in kWh

	2018	2019	2020	2021	2022	Change since 2021
Total	27,602,681	26,971,297	23,031,243	23,275,863	24,039,569	3.3%
Isavia ohf.	22,056,730	21,493,358	17,814,037	17,575,052	20,296,095	15.5%
Isavia Regional Airports	3,860,997	3,298,626	2,827,689	3,219,705	2,268,887	-29.5%
Isavia ANS	1,607,392	2,099,651	2,345,545	2,440,382	1,412,314	-42.1%
The Duty Free store	77,562	79,661	43,972	40,724	62,273	52.9%

Isavia's Hot Water Consumption in kWh

	2018	2019	2020	2021	2022	Change since 2021
Total	51,810,959	49,550,310	45,559,936	37,811,998	39,487,375	4%
Isavia ohf.	46,021,512	43,397,309	36,903,846	27,725,064	32,678,986	18%
Isavia Regional Airports	3,431,753	3,837,376	6,469,882	6,663,554	4,042,699	-39%
Isavia ANS	2,357,695	2,315,625	2,186,208	3,423,381	2,398,578	-30%
The Duty Free store	-	-	-	-	367,112	

Free Route Airspace

The t Free Route Airspace project is geared toward reducing the fuel use of airplanes with more economical flight paths and altitudes. The project is headed by Borealis Alliance, an association of nine air navigation service providers (ANSP) in Northern Europe, of which Isavia is a member.

Free Route Airspace has been fully implemented for the Icelandic control area, through which more than one-third of all air travel moves when crossing the North Atlantic. In 2022, for instance, over 164 thousand airplanes flew through it. The effects of flight altitude on the fuel consumption of aircraft are considerable, and it is important for air operators to be given an optimal altitude for their planes. This limits fuel use and prevents unnecessary exhaust. Studies have shown that a deviation of 1,000 feet from the optimal altitude of a jumbo jet can cause a 1% increase in fuel consumption per hour. There is, therefore, a lot to be gained.

In support of the project, ADS-B surveillance from the satellites of Aireon was taken over for the Icelandic flight control area north of 70°N

Isavia's fossil fuel use in litres	2020	2021	2022	Change since 2021
Petrol (L)	26,962	34,358	37,575	9.4%
Diesel (L)	759,292	483,013	776,196	60.7%
Aviation fuel (L)	66,676	62,337	58,505	-6.1%

to the North Pole. This marks the first time that surveillance services were provided for the entire Icelandic control area.

Concurrent with Free Route Airspace, Isavia ANS (Air Navigation Services) has been developing environmental and performance indicators for the category. One of these indicators, which tracks the percentage of aircrafts that receive the requested altitude, is used in the performance plan of the Icelandic Transport Authority for 2020–2024.

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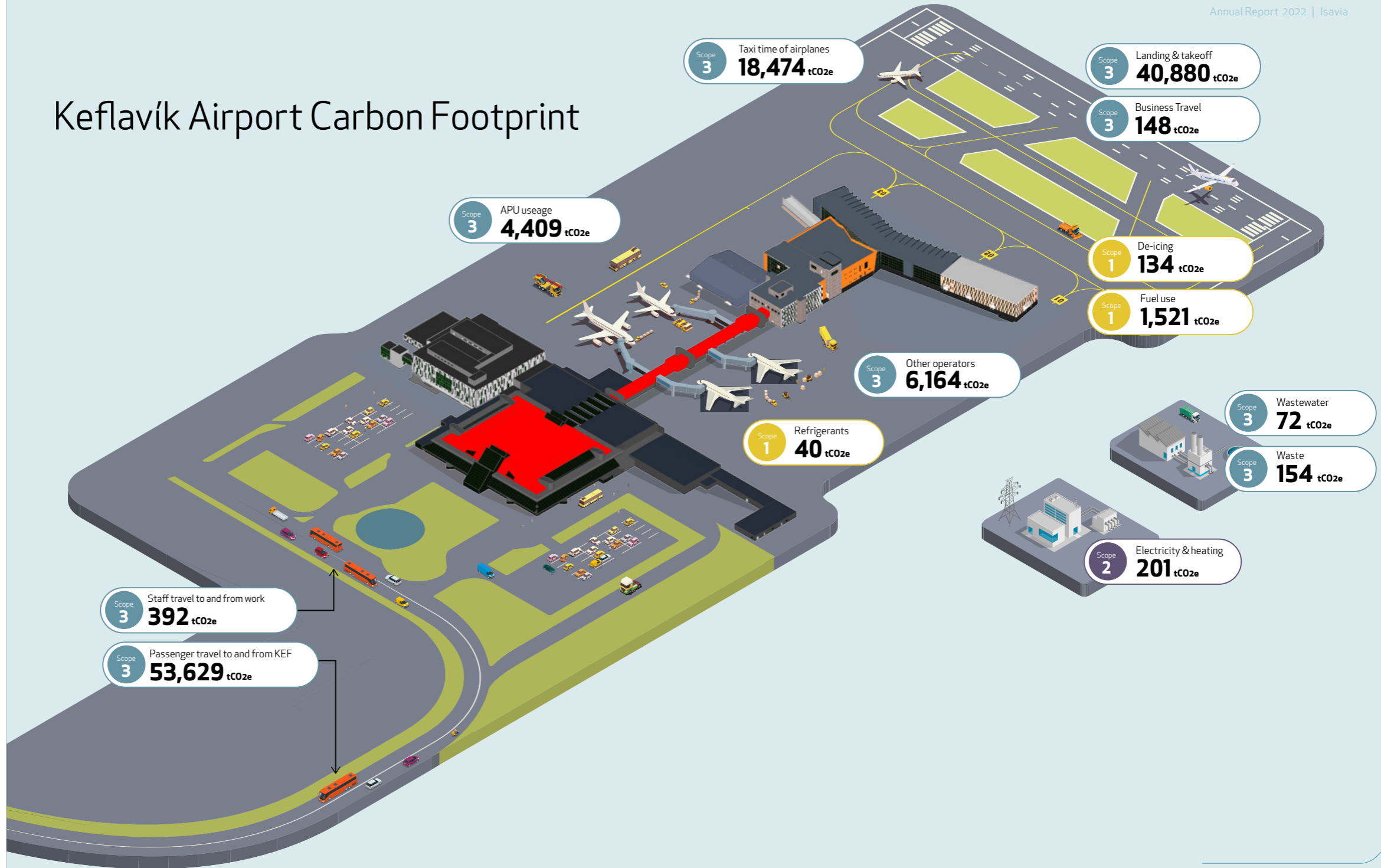
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Keflavík Airport Carbon Footprint



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Resource Efficiency

We focus on the environment throughout all the divisions of the company. We monitor and measure the environmental factors which our operation might effect. The goal is to assess whether, and if so, then how, the operation can be made more sustainable with respect to nature and society. Isavia ohf. has been working according to the ISO14001 environmental management system since 2020; we operate according to clear working procedures and constantly seek new ways for improvement and development in that area.

The Environment

At Keflavík Airport, minor polluting accidents happen regularly, and they are dealt with in accordance with certain working procedures. Most often, the incident in question is a minor oil leak, which can occur during, for instance, the fuelling of airplanes. One large pollution spill took place at Akureyri Airport in 2022 in which about three thousand litres of JetA fuel leaked when an airplane was fuelled. A considerable cleansing operation was undertaken in collaboration with the Public Health Authority in the north of Iceland.

No judgments have been passed where Isavia has been found to violate laws or regulations regarding environmental matters, and no such charges are pending.

Actions Relating to Recycling

The environmental impact of unsorted waste is considerable, and efforts are therefore being made to reduce waste and increase recycling. During 2022, work began on integrating reuse and recycling better into the circular system of Isavia. The implementation of smart waste solutions for operators in the Keflavík Airport Terminal with the PAYT model (Pay As You Throw). This involves users paying for what they throw away, which will hopefully lead to less accumulation of waste. The burying of unsorted waste from Isavia and its subsidiaries depends on the territory of the operation units. However, most of it is incinerated in Kalka.

During negotiations and renegotiations with concessionaires, the sustainability of the planned operation is always considered. Also, operators are obligated to commit to fulfilling our sustainability goals for the use of 100% environmentally friendly packaging by the year 2026.

Extensive excavation has taken place during the year because of construction at Keflavík Airport. We preserve and utilise as best we can the resulting rocks and soil. The resulting material is then used, for example, for landfills and foundations or broken down within the area to reduce waste during transportation from mines.

During the year, food waste was measured within Isavia’s canteen for employees at Keflavík Airport, which is part of an effort to make better use of food.

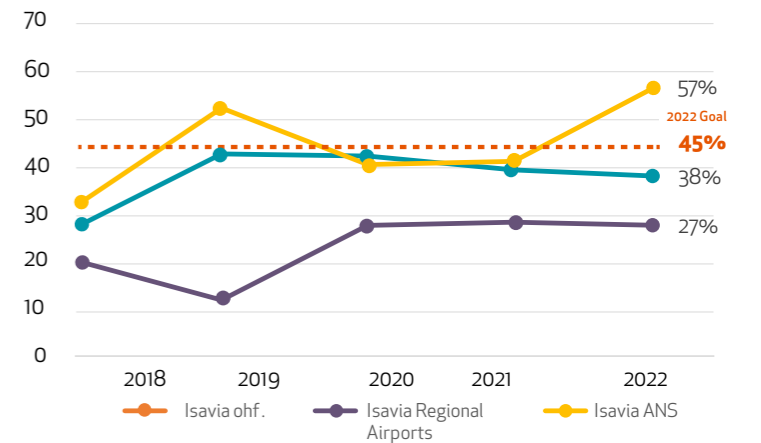
Recycling Proportion and Volume of Waste

Our goal in 2022 was to sort 45% of all the waste which accumulated during the operation. That goal was not reached, but the proportion of sorted waste almost reached 38%. The proportion of sorted waste per passenger decreased between years, which may be explained by the increased number of passengers after the COVID-19 restrictions were lifted. To reach the set goals for 2023, monitoring will be increased and the environmental dashboard will be used to analyse waste streams and locations. Co-operation also take place with operators within the terminal to reduce waste and increase sorting.

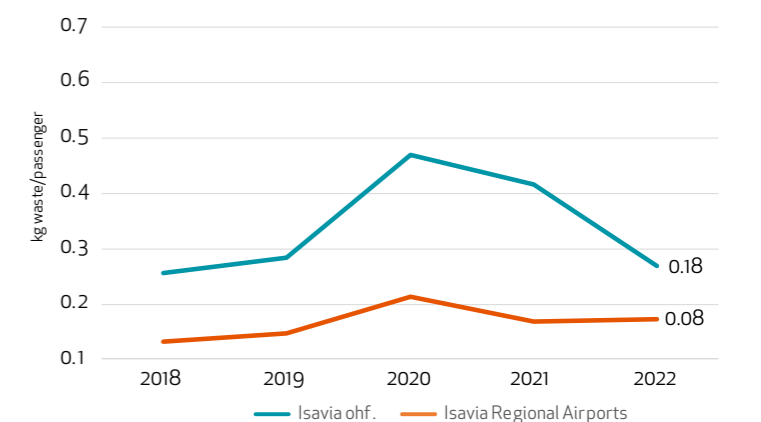
Water

Verkís has had overall responsibility for groundwater monitoring at Keflavík Airport since 2017. Groundwater in the area is not used as drinking water but is nevertheless monitored so that its quality and freshness may be ascertained. The last groundwater measurement was conducted in October of 2022, and the volume of unwanted chemicals was found to be low. They can mostly be traced to the activities of a third party in previous years and to a small extent to de-icing materials used on aircrafts on the apron of Keflavík Airport when weather conditions demand.

Isavia’s Recycling Proportion



Total Quantity Waste per Passenger



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Last year was the first where chemicals belonging to the PFAS chemical group were included in the groundwater monitoring. The chemicals were measured as exceeding the European benchmark in all the sample holes in the area, albeit in different quantities. The chemicals can mostly be traced to the fire department's use of firefighting foam during training at Keflavík Airport. In 2023, Isavia will switch over to a non-PFAS foam. Isavia is among the first in this country to measure PFAS and will continue to do so along with monitoring the quality of groundwater in the Keflavík Airport area.

The drinking water of Keflavík Airport and its environs comes from a well in Lágár, approximately eight km southeast of the airport. Isavia obtains water from the distribution systems of the municipalities where the company has a base of operations and neither recycles nor reuses water from airport areas.

Isavia runs a one-step pump and treatment plant at Stafnes for sewage from the terminal at Keflavík Airport and the surrounding area. Its recipient is the sea and is defined as a less delicate recipient. During the year, we engaged the Research Centre of the University of Iceland in Suðurnes to conduct a study of the recipient of the sewage treatment plant. The aim was to study its effect on plant and animal life in the sea close to the discharge pipe at Djúpavík in Stafnes. The first results indicate that the recipient is very good and that the environmental effect is little. Further analysis is needed, however.

In other places, Isavia uses the sewage system of the municipality of each operating centre. The recipient is in all cases the sea, although the level of sewage cleaning may differ depending on the sewage system in question. Oil separators and settlement ponds receive the majority of the polluting substances in the surface water that otherwise would end up in the groundwater or sewage system.

The water use of Isavia is significant, as its operation is extensive. Measurements of hot water consumption are done but measurements of cold water are sometimes fixed. Cold water consumption figures are therefore unreliable. Isavia used 566 ML of hot water in 2022 and approximately 639 ML of cold water.

Use of Chemicals

At Keflavík Airport, de-icing granules and de-icing liquid are used on runways, taxiways and aprons to prevent danger due to ice. The chemicals are certified with the eco-labels the Blue Angel and the Swan, are biodegradable and have a low toxicity effect on water. Domestic airports use sand almost exclusively for ice-preventative de-icing, while at Egilsstaðaflugvöllur, they use approximately 1,200 kg of de-icing granules.

The use of de-icing liquid depends on the weather. There was less ice accretion in 2022 than in the previous year despite more snow and, therefore, use decreased from the previous year.

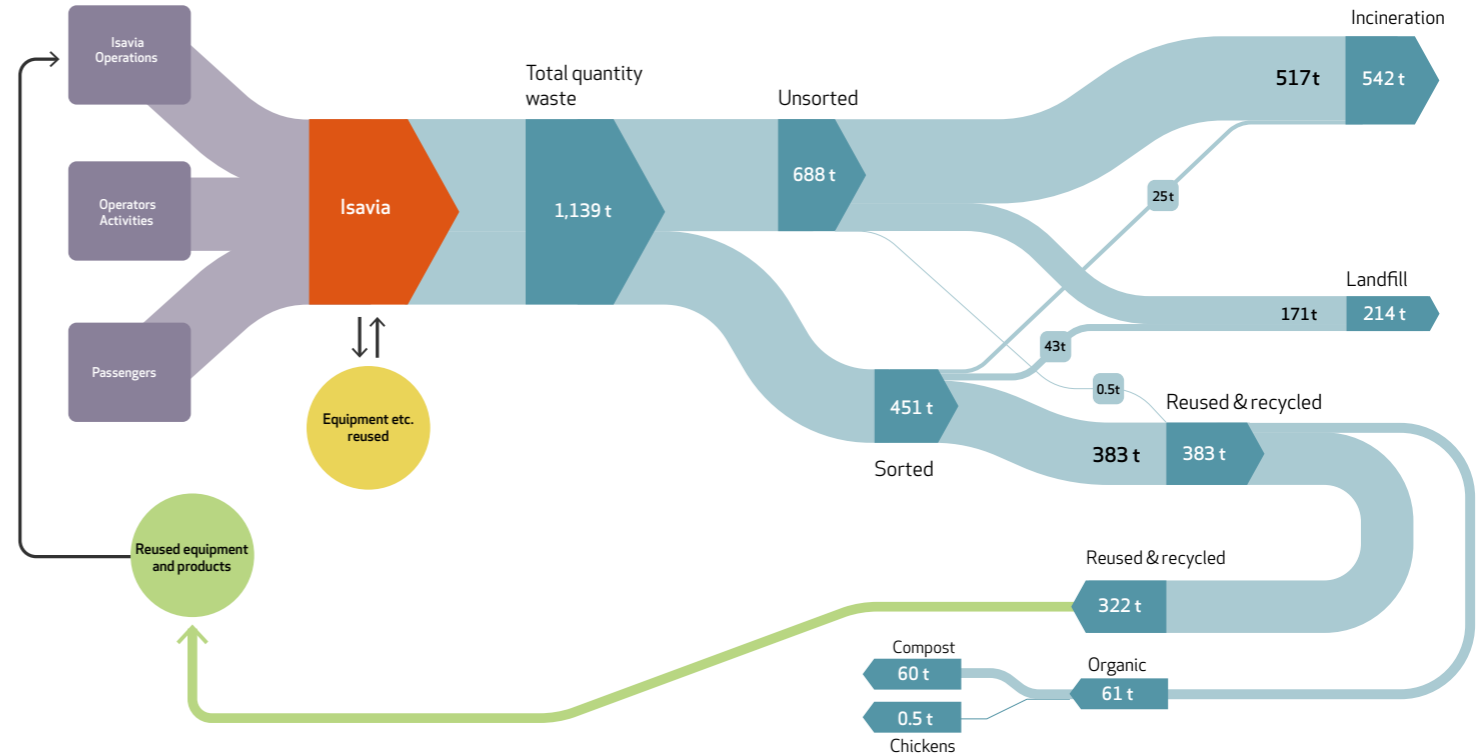
Quantity of De-icing Chemicals in Airports

	2020	2021	2022
De-icing grains (tonnes)	107	77	116
De-icing liquid (litres)	219,000	188,781	175,542

Total Quantity Waste

Quantity (kg)	2018	2019	2020	2021	2022	Change since 2021
Total Isavia	1,673,308	1,451,490	582,284	764,016	1,139,266	49.1%
Isavia ohf.	1,611,438	1,382,872	514,261	698,139	1,064,015	52.4%
Isavia Regional Airports	33,658	39,254	40,168	43,766	59,654	36.3%
Isavia ANS	28,212	29,364	27,855	22,515	15,597	-30.7%

Waste flows



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Quality of Life

We work strategically towards being a role model of sustainability in Iceland. We take the initiative to increase sustainability in the entire airport community and collaborate closely with society based on mutual respect. We rely on open communication to disseminate information, and we use our common experience and knowledge to succeed.

Air Quality

Isavia monitors the quantity of certain chemicals in the atmosphere. Air quality meters are located at Keflavík Airport and in its vicinity. The quantity of nitrogen oxide (NO and NO₂), which are the harmful chemicals which should be the most concerning result of airport operations, are monitored. Measurements show that their quantity is usually low and always under the guideline limits. Air quality projections which have been made for Keflavík Airport for up to 14.5 million passengers per year demonstrate that despite that number, the quantity of nitrogen oxides would stay under the guideline limits. The number of passengers moving through the airport in 2022 was 6.1 million.

After the volcanic eruption began in Fagradalsfjall in 2021, Isavia set up other air quality meters in Reykjanes in collaboration with Suðurnesjabær and the Environmental Agency. In addition to prior measurements, the quantity of sulphur dioxide (SO₂) and hydrogen sulphide (H₂S) were measured. No measurements exceeded the health protection limit of 2022.

Reducing Noise Disturbance

We monitor noise resulting from flights in Keflavík Airport all year round with noise monitors placed at four locations in the vicinity of the airport. A noise measurement system has also been set up where residents, stakeholders and the staff of Isavia can monitor flights and noise measurements in their immediate vicinity. You can report nuisance noise that relates to individual aircraft movements via the system.

In 2022, Isavia received 28 reports of noise and nuisance caused by air traffic at Keflavík Airport, most of which were linked to passenger flights directly over residential areas. There were 21 reports of nuisances caused by flight movements at Reykjavík Airport, mainly due to the aircraft start-ups and helicopters. No formal complaints were received because of the operation of the other airports of Isavia.

In recent years, we have been working on several mitigation measures due to the disturbance that residents in the immediate vicinity of Keflavík Airport may experience. This includes the implementation of new flight trajectories and different use of runways, which are implemented to the greatest extent possible, with due regard to safety and environmental factors, such as wind and runway conditions.

Efla Consulting Engineers has been mapping air traffic noise around Keflavík Airport. The last information was updated in 2016 at the Environmental Agency, and according to them, no resident felt 24-hour noise over 65 db as a result of air traffic, about 300 felt 24-hour noise from 60 to 64 db and about 1,300 felt 24-hour noise from 55 to 59 db. A new mapping of air traffic noise is planned for 2023.

Ecosystem

We meticulously monitor the fauna and birdlife within our airport areas with the aim of decreasing the likelihood of collisions between animals and airplanes. To that end, we analyse the environs of the airports, which animal species live there, the vegetation and food supply. We register the behaviour of the animals and list the incidents which cause harm to them. We use the knowledge to develop countermeasures which include habitat management and driving birds and animals away from runways.

In 2022, 12 confirmed instances of aircraft birdstrikes were registered at Keflavík Airport. 16 birdstrikes occurred at the regional airports; this was an increase from the previous year, which is to some extent attributable to improvements in the recording of birdstrikes at the regional airports.

Isavia in the Community

Suðurnes Forum

The Suðurnes Forum is a collaboration which began in 2019. The four municipalities in Suðurnes participate in the forum – Grindavíkurbær, Reykjanesbær, Suðurnesjabær and Vogar – Kadeco (Keflavík Airport Development Company), the Association of Local Authorities in Suðurnes and Isavia. The aim of the forum is to enhance the economy

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and fortify infrastructure with reference to the UN Sustainable Development Goals.

The conclusion of the forum’s strategy formulation was released in June 2021, and now all parties work together on achieving the set goals. The circular economy is prioritised, where sustainability is a key factor in future tasks. Also, the common carbon accounting of collaborators is being set up, as well as increased sorting of waste and a comprehensive education policy in the field of sustainability for all school levels in Suðurnes.

Success in the field of sustainability consists of solidarity and co-operation on the basic factors related to the local community. To facilitate the implementation of the projects which the community of Suðurnes decided to collaborate on, the plan is to conduct annual briefings about our common success in the field of sustainability.

The southern peninsula (Suðurnes) innovates in shaping thinking along the lines of circularity in the economy. The Svartsengi Resource Park is an example of such thinking, and it has in fact become a role model around the world. Now a feasibility report has been drafted, and a workshop has been held regarding a Green Industrial Park in Suðurnes, where a number of different companies would work in close quarters and use a number of different energy- and chemical flows.

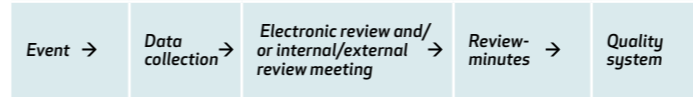
Civil Protection and Group Accident Response

As an organisation which operates airports and air navigation in Iceland, Isavia has an important role to play in the system run by the Department of Civil Protection and Emergency Management. The company also plays a key role in response plans for search and rescue in the Icelandic air traffic control area.

As a rule, Isavia conducts four full scale airport emergency plan exercises every year around the country, and participation in them has always been excellent. More than 1,000 people from all response units in the country, as well as the general public, usually take part in these exercises. Emergency plan exercises at the airport are an important part of the response systems of both Isavia and the Department of Civil Protection and Emergency Management and an important consultation forum for responders in the country. As a demonstration of this, the compulsory response plans of the Department of Civil Protection and Emergency Management for multi-party accidents have developed in line with the working procedures used in these exercises.

Four full scale airport emergency plan exercises were conducted in 2022: at Þórshöfn, which had been postponed in the previous year because of COVID-19, in Ísafjörður and in Reykjavík. The co-operation and unity of all the responders characterised the drills.

Emergency and Crisis Coordination Review Process



From a full scale airport emergency plan exercises at Reykjavík Airport

Isavia’s Emergency and Crisis Coordination

Isavia’s Emergency and Crisis Coordination was formally founded in 2015 and has since tackled a variety of events, anticipated as well as unforeseen ones. Emergency and Crisis Coordination ensures a co-ordinated and harmonised response from Isavia during times of danger and emergency, ensures a comprehensive reaction to events which threaten the operational security of the company, mitigates their effect and provides managers and employees with support so that full service may be ensured again as quickly as possible. To achieve these goals, the Emergency and Crisis Coordination employs flexible and performance-driven procedures that address events in an organised manner.

All the actions in which Emergency and Crisis Coordination is involved are reviewed. The manner of the activation of response plans during the alert phase and the emergency phase is also reviewed. Participation in this review is constantly increasing, as it is important to examine the views of recently arrived individuals. The review takes place within Isavia and also among stakeholders if appropriate. The results are entered into the quality system of Isavia which ensures that the improvements find their way into the operation. Thus, knowledge may be obtained from actions and processes within the airport community may be enhanced.

In 2022, Emergency and Crisis Coordination at Isavia has been almost constantly active. One challenge after another has been dealt with, for instance earth tremors, a volcanic eruption, the COVID-19 pandemic, looming strikes, preparedness for storms, etc. This has been done in good collaboration with employees, stakeholders within the air travel community and the Department of Civil Protection and Emergency Management. Co-operation within the airport community increases with every challenge, and the ties between its parties keep strengthening. Emergency and Crisis Coordination ensures open communication channels, safeguards a healthy information supply and holds regular consultation meetings. Also, short communication channels within Isavia, among stakeholders and with external parties, have proved important to the process.

Seismic Activity and Volcanic Eruption

The ground continued to shake at Reykjanes, and the second volcanic eruption at Fagradalsfjall took place on 3 August. Well-defined processes are in place for volcanic eruptions in the vicinity of Keflavík Airport, and when a new eruption took place, it became evident that all parties in the area were well prepared and experienced from the eruption of the previous year. Increased air traffic follows volcanic eruptions, and that traffic was conducted into the area. The eruption lasted for 18 days and had no effect on air travel.

Storms

Preparedness within Isavia and among other stakeholders within the airport community is excellent regarding events related to storms and the unpredictable Icelandic weather. Unusual conditions were created at Keflavík Airport just before Christmas when heavy snows caused Reykjanesbraut to remain pretty much closed for traffic for over 24 hours on 19 and 20 December. At the same time, air travel remained operational. The entire system of preparedness in the country was then tested, as neither staff nor passengers were able to get to Keflavík Airport or leave it, in addition to driving conditions around the country being poor. The situation was resolved at last, and many lessons were learned which may be applied during comparable situations later.

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Human Resources

Isavia's human resources policy is to create a workplace where employees show respect for each other and are honest with themselves and others. We intend to be at the forefront as a workplace where equality and trust prevail. Thus, we create a good working environment with a constructive culture which contributes to the happiness of employees and allows them to be courageous and constructive while assuming responsibility for their own performance. We at Isavia believe that we achieve added success as a team.

The year 2022 was a busy one within the operation of the company, as air traffic began to increase once more and the recovery of the airlines and the passengers exceeded the projections. Construction at Keflavík Airport also continued apace. This led to interesting challenges in the operation which called for a staff increase to better be able to work together on servicing passengers, airlines and our other collaborators within the airport community.

In 2022, 1,329 employees were employed by Isavia in 1,163 full-time-equivalent units. The number of working individuals had increased by 200 from the previous year, and the increase was proportionally greatest at the parent company, Isavia ohf., and at Duty Free Store ehf., as the operation of both companies is to a great extent based on air traffic through Keflavík Airport at each time. The ratio of women from the employee group has increased slightly, and they were 39% of the total number of employees. Men were 61%. The average age of employees fell by two years and now stands at 40 years. Average length of service was 7.2 years.

With regard to the expansion of Keflavík Airport and the related construction, Isavia contracted with the company Mace Group for assistance on construction projects. The employees of Mace are based at the facilities of Isavia in Hafnarfjörður and in Keflavík Airport and participate fully in our operation. In 2022, 31 individuals were employed by Mace to work on projects for Isavia, 23% of which were women and 77% of which were men.

Our operation takes place all over the country, but a majority of the staff works at Keflavík Airport. The second largest base of operations is at the air traffic control centre at Reykjavík Airport, where the operation of Isavia ANS mostly takes place. Outside the Greater Reykjavík Area, our facilities at Akureyri have the greatest number of employees, followed by our facilities at Egilsstaðir and Ísafjörður. We at Isavia are very fortunate in that all of our facilities are staffed by unique employees who give their all to keep the company's operation running each day.



Corporate Culture

One of our key tasks in 2022 was the cultural journey of the company. It's entitled "On a new journey together" and underpins the successful implementation of the policy of the company. The company has drafted a cultural statement which will lay out our guiding principles with regard to behaviour, in which it is stated: We respect each other and are honest to ourselves and others. We strive to maintain a happy workplace, we are courageous and constructive and we take responsibility for our own performance. We achieve success together.

The cultural statement is meant to change the passive and domineering culture of the company to a constructive culture which emphasises success, personal growth, inspirational surroundings and a good relationship between parties.

Management and staff have received regular training in the methodology of constructive culture in workshops which were held by foreign consultants and company management. Also, we set up "buddy"-groups where staff is divided up into groups of 4-5, some within divisions and

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others across different divisions and departments. The groups meet every 4–6 weeks, familiarising themselves with each other's work and completing projects together regarding the behaviour patterns which engender a constructive culture.

Isavia ANS also decided to embark on a similar journey with the same methodology and began their journey at the end of 2022.

Recruitment and the Labour Market

We wish to engage in constructive communication with all interested parties in the labour market. Isavia operates in the general market and follows general collective wage agreements negotiated by the Confederation of Icelandic Employers with numerous unions on behalf of the company. Special collective wage agreements have been made with Landssamband slökkviliðsmanna (LSS) (firefighters), Félag flugmálastarfsmanna ríkisins (FFR) (state aviation employees), Sameyki (SFR) and Félag íslenskra flugumferðarstjóra (FÍF) (air traffic controllers). The collective wage agreements with the largest unions expired in the autumn of 2022, and wage negotiations with the unions had begun before the end of the year without having been concluded by the end of the year.

The company fully complies with the laws and rules that apply to the labour market at any given time. Almost all employees, or 98%, are members of trade unions and follow their provisions when it comes to rights and obligations. Those who have chosen not to be represented by labour unions negotiate with their immediate superior for wages and entitlements. These individuals nevertheless enjoy the same rights as other staff with regard to payments from the pension fund, the accrual of vacation pay, sickness benefits and other rights stipulated by collective agreements.

The notice required to terminate employment is subject to the provisions in the appropriate wage agreement and can vary according to length of service and age. The right to terminate employment is mutual, and all information is in writing as stipulated in the rules. The minimum age for prospective employees is 18 years, although the company can provide exemptions and hire individuals aged as young as 16 years for certain projects and tasks.

Recruitment

We use good practices for recruitment and always maintain neutrality. We welcome new people and ensure that they receive the appropriate information, training and resources to do their job well from day one.

Isavia aims to enable employees to develop in their work through transfers between jobs. The company has established a rule to advertise all vacancies unless the CEO provides an exception for something else. Jobs are advertised on the company's internal and/or external website, on alfreð.is and on social media. In 2022, 134 jobs up for application were

Total number of employees	Women	%	Men	%	Total	%
Total number	514	39%	815	61%	1329	100%
- Full time	359	27%	730	55%	1089	82%
- Part time	155	12%	85	6%	240	18%
- Temporary	63	5%	51	4%	49	4%
- Permanent	451	34%	764	57%	1215	94%
- Interns	13		16		29	

Age distribution of all employees	Women	%	Men	%	Total	%
Under 30 years	149	13%	163	14%	312	23%
30 - 50 years	238	21%	403	35%	641	48%
Over 50 years	127	11%	249	22%	376	28%
Total	514	39%	815	61%	1329	100%

Ratio of managers of all employees	Number of employees	%
Women	55	4%
Men	114	9%
Total managers	169	13%

Age distribution of managers	Number of employees	%
Under 30 years	4	2%
30 - 50 years	97	58%
Over 50 years	68	40%
Total managers	169	100%

announced at the company and 3,409 individuals applied. The average age of the applicants was 32 years and half of those who divulged their gender during the hiring process were men.

A total of 541 individuals were hired during the year. 400 of them were hired for summer jobs, and a part of that number were offered full employment or work paid by the hour at the company at the end of summer employment. Women were 45% of those hired and men 55%. The average age of new recruits was 30 years.

End of Employment

We say goodbye to those who retire from the company with respect, and we strive for the interests of the staff and the company to be aligned at the end of employment. Isavia's general retirement age is 67 years, unless otherwise agreed in the wage agreements. Courses on retirement are available at the company for employees approaching retirement age, and we have also invited the spouses of these people to take part. In December of 2022, such a course was held in collaboration with the company Auðnast.

Employee turnover at Isavia and its subsidiaries in 2022 was 17.6% once temporary hiring for summer jobs have been considered.

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Workplace Observation and Staff Interviews

At the beginning of the year, Isavia and its subsidiaries began monthly pulse measurements where the staff is asked to provide feedback regarding certain factors within the operation and management within the company. Each manager receives monthly results for his unit, and the results are categorised by 10 driving forces which effect the satisfaction and dedication of the staff at each time. The total job satisfaction within the company in 2022 scored 7.6 on a 10-point scale. That is slightly less than the job satisfaction goal score of 8 or higher in each unit.

Isavia focuses on managers conversing regularly with staff. The conversations are supposed to contribute to good co-operation between everyone, as the managers and staff bear joint responsibility for morale and wellbeing in the workplace. As the operation of the company is extensive and differs from one unit to another, managers have the option to select one of two ways to handle such conversations, depending

on what's convenient for each operation. On the one hand, there are 15- to 20-minute "check-in" conversations 6-12 times per year or longer conversations which take place once or twice each year.

Equal Rights

Isavia promotes equality in all the company's activities and ensures that all employees have equal opportunities and opportunities to use their talents at work. We seek ways to ensure an equal gender ratio in both the group of managers and employees and emphasise open and honest communication where staff treat each other with respect and provide each other with assistance during daily work. We want our offices to be run with equality, trust and a healthy working environment.

During the year, the policies on human resources and equality within the company merged into one document. This was done to show that

equality issues are part of all issues related to human resources at the company. Along with the policy, a new action plan for equality issues was sent for approval by the Equal Opportunities Agency, which certified the plan for the next two years. The plan is prepared in accordance with Act No. 150/2000 on Equal Status and Equal Rights Irrespective of Gender. Its purpose is to ensure that equality is safeguarded among the employees of the workplace and that their skills, resources and knowledge are fully utilised.

We have set out to be a fun and interesting workplace where the equipment and facilities are optimal. We create a work environment that is characterised by mutual flexibility, so that there is an equilibrium between the needs of work and family responsibilities. The company attaches great importance to trying to accommodate staff requests for parental leave and to showing flexibility in meeting their needs as they return to work. A total of 88 employees took parental leave in 2022, 36 women and 52 men. In 2021, 105 employees took parental leave and almost all of them returned to work after the leave.

Average Hours of Training per year per Employee	2022	2021
Average hours	47 h.	29 h.
Men	51 h.	31 h.
Women	42 h.	24 h.
Managers	49 h.	15 h.
Employees (without managerial responsibility)	47 h.	31 h.

Terms of Employment and Equal Pay Certification

Isavia is committed to implementing, documenting and maintaining an equal pay system in accordance with the requirements of the equal pay standard IST 85 and obtains an equal pay certification in accordance with Act No. 150/2000 on Equal Status and Equal Rights Irrespective of Gender. The company implemented an equal pay management system in 2018 and received an equal pay certification the same year, which was valid for three years. In 2022, the company received re-certification following an audit carried out by BSI in Iceland. The equal pay management system is intended to ensure that all employees receive equal pay and enjoy equal terms of employment for the same jobs or jobs of equal value. In parallel with the certification, a wage analysis was carried out which revealed that there is no unexplained gender pay gap at Isavia.

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Human Rights

We endeavour to ensure that all employees regardless of gender, age or nationality, enjoy equal opportunities for work development and training. New recruits are informed about our equality policy and the company's Code of Conduct. All frontline staff receive training on human trafficking, its characteristics and the correct response if suspected.

In order to increase services for passengers with invisible disabilities, the so-called Sunflower Band was introduced at Keflavík Airport. This is a lanyard that passengers with invisible disabilities can choose to wear when passing through the terminal. We prepared a digital educational video about the Sunflower Band which informs our staff of how they can be more considerate in their dealings with this group of passengers.

Welfare Services

Isavia has a service contract with the company Heilsuvernd which takes care of the welfare services of the company. Heilsuvernd provides the company's corporate medical services as well as regular vaccinations, health check-ups and other services related to staff welfare. In 2022, 25 individuals used the services of a company doctor.

Influenza vaccinations took place in the autumn of 2022, along with health checks at all workplaces of Isavia and its subsidiaries. A total of 594 individuals used this service and underwent a health check with the nurses of Heilsuvernd. Also, 117 individuals underwent a special health check for their work as firefighters and rescue workers in 2022.

We care about the health and safety of employees. The agreement with Heilsuvernd, along with the introduction of new welfare services is part of creating a safe and good working environment at all the company's operating units. The agreement with Heilsuvernd also greatly improved services to staff in terms of psychosocial aspects, but all the Group's staff can now attend 5 sessions with psychologists or other Heilsuvernd professionals free of charge. In total, 99 individuals utilised this service during the year, and each individual attended an average of 2.8 interviews with the psychologists of Heilsuvernd.

Social Environment

We care about each other's wellbeing, and we emphasise equality, trust and a healthy work environment. It is the clear policy of Isavia to neither tolerate nor engage in bullying, sexual harassment, gender-based harassment or any other form of violence (EKKO).

The company has set up a clear response for matters which may arise related to EKKO. This policy is set on the basis of Act No. 46/1980 on Working Environment, Health and Safety in Workplaces and Regulation no. 1009/2015 on bullying, sexual harassment, gender harassment and violence at work.

The plan covers all Isavia offices and subsidiaries and applies equally to employees, managers and contractors who work for the company or for other service providers at Isavia's offices.

Six cases arose in 2022 that concerned the company's policy and rules on social environment and psychosocial aspects. Three of them were related to bullying and three to sexual harassment. Two of the cases ended with the perpetrator being terminated and four of them with a reconciliation between the parties.

The Isavia Academy

We ensure that all employees receive the applicable training so that they have the skills necessary to achieve success in their work. Training should also ensure staff safety and wellbeing. A wide range of courses are available all year round, both mandatory courses and courses aimed at developing personal skills and promoting wellbeing at work. The content of training each year depends on the projects, objectives and challenges facing the company. The largest part of the training is mandatory training for Isavia's Aerodrome Certificate.

The Isavia Academy organizes all training at Isavia ohf. and provides its subsidiaries with information about the operations of the Isavia Group. An example of this is our on boarding program, training regarding information- and cyber security and personal data protection. In addition, the staff of the Isavia Academy conducts training for airport services and airport security at Isavia's regional airports. Isavia ANS runs its own training department which trains air traffic controllers.

The Isavia Academy also makes e-learning courses and provides them to all employees that needs access permit and other permits to work at any airport in Iceland. Examples of this is courses on aviation security and safety awareness, driving courses and passenger boarding bridge courses. Airport Ground handlers who work in aviation security must also receive that training at the academy, and therefore the group of students at the Isavia Academy is much larger than the number of employees within the Isavia Group. In 2022, over 5,000 people received training at the academy.

Study Tracks and Training Courses

Airport Operation Track

A new syllabus was issued for airport operation staff who tend to seasonal work, such as snow removal and rescue- and firefighting. Efforts were also put into reviewing the basic training material which is very extensive. Training trips were taken to regional airports with focus on practical training drills and annual skills assessment. Also, the curriculum of driving training was reviewed, and digital courses were produced to increase security at the airport.

Air Terminal Track

At the Air Terminal Track, we finished all training in connection with the merger of HCC and Airport Security Control Centre into APOC (the Airport Operations Centre), training plans were reviewed and a performance assessment for passenger bridges was moved to flight service providers.

Airport Security Track

Employees who work in airport security must be recertified every three to five years depending on whether or not they are certified screeners.

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Over 200 employees of Isavia and flight service providers were recertified during the year, which involves both a knowledge-based test and a standardised picture analysis test. Many summer employees were hired to work in airport security, and over 200 employees finished basic training thereof and 80 finished retraining.

New e-learning courses were implemented which shortened the classroom attendance of students by three days, and all the employees of Passenger Airport Security department were trained in operating a new scanning system.

Corporate Training Track

Corporate Training track organizes courses for all employees across the Isavia Group. The courses are either e-learning courses, classroom training or a blend of both. A special website with educational and informational materials regarding work-related stress was opened on Workplace.

Icelandic Courses

In the past few years, the number of employees for whom Icelandic is a second language has increased at Isavia. Same as with other employees, we want them to feel good on the job, adapt to the group and be able to absorb all information and training necessary for doing their job confidently. Icelandic skills are key in that context, and therefore, Icelandic courses were on offer within the air terminal for this group. Employees were given an opportunity to attend the course during working hours. However, those who work shifts sometimes attended during their hours off. Participants were both satisfied with and interested in the initiative and wish to see Icelandic courses in the workplace develop further.

Digital Courses

Digital courses are an ever-growing part of our training. The Isavia Academy provided many of those, along with utilising materials from other entities, such as AwareGO and Akademia. Also, the entire staff was given training related to our cultural journey "On a new journey together".

Leadership Training

Leaders within the three uppermost management steps, the CEO, the executive team, directors and department managers underwent leadership assessment and executive coaching as part of the cultural journey. They also attended workshops where various exercises took place. Managers in step four began their managerial training at the end of the year. As managerial training is organised, we consider the desired culture which we aim towards, the cultural statement and human resources policy of the company, the strategy of Isavia and the Leadership skills model.



Collaborative Projects and Grants

Mace Collaboration with Local Community and School System

Recently, our Educational Engagement Plan was approved, which was set up along with the consulting company Mace regarding the major construction at Keflavik Airport. The aim is to empower the local community and communicate the knowledge which has been created during the expected and current construction at Keflavik Airport to students, university teachers and professionals who work in construction. The plan contains various projects which we work on together with the public school system, for instance workshops in primary schools and participation in Job Fair in Reykjanesbær. Also, a lecture series for university students is under preparation, as is a design competition at Fjölbrautaskóli Suðurnesja.

Collaboration with Reykjavik University

Our co-operation agreement with Reykjavik University expired in the beginning of 2022. It was decided to revise the arrangement of grants for master's and doctoral projects and to not renew an unchanged agreement with RU. A continuation of the co-operation is planned, however, as mentioned in the previous chapter, for instance with a lecture series and mutual visits. We also receive trainees annually for long terms as well as shorter ones from the universities.

Study Grants

At Isavia, employees can apply for study grants. The aim is to empower employees to be more successful at work by adding to their skills and education. Grants were provided for various types of studies this year: university studies on the basic level as well as the advanced level, vocational training, executive coaching and project management courses.

The VirtuAir Reality Project

The Isavia Academy is a participant in a European project at Krakow Airport in Poland. The project received a grant from the Norway Grants Education Program for two years. The goal of the project is to promote jobs at airports and in the air travel industry by two means: on the one hand, with a website where one will be able to read up on jobs, what they entail and what must be done to be able to do those jobs, and on the other hand, with software manufacturing, as the plan is to create up to four virtual reality stations where people can try out certain airport worker tasks with 3D glasses on. The project will finish in February of 2024.

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Customers



Collaboration and Development

A prerequisite for Keflavík Airport's success is purposeful collaboration with dynamic business partners. In 2022, work was being done to restore operators at the terminal after two years of closures and/or restricted business due to the COVID-19 pandemic. All operators working in the terminal before the pandemic were ready to resume operations. The year got off to a slow start, and the demands on operators were in line with that. The number of passengers started to increase in April and in July the airport had fully recovered in terms of the number of arriving and departing passengers compared to 2019. There was a lot of good will on the part of the operators to reach full capacity, which however turned out to be a challenge in terms of staffing and resources.

Preparation for a Greatly Increased Volume of Tourists

In early December 2022 we held a morning meeting titled Responsible Development in Line With the Masses. At the meeting, we reviewed Keflavík Airport's passenger forecast for the year 2023 and the future development and construction at the airport under the name KEF+.

A large number of people watched the meeting in Harpa, and through streaming, and it was well attended by representatives from the tourism industry and the administration. At the meeting, among other things, it was stated how important it is to strengthen the infrastructure and framework of the tourism industry with good collaboration between everyone, as it is expected that in the year 2023, the third largest number of passengers will pass through Keflavík Airport since its inception. It is therefore important that the tourism industry as a whole is ready to receive that volume.

Isavia's new overall strategy addresses the importance of the airport community and the importance of putting the customer first. In that context, work began in 2022 on the Policy for the Overall Passenger Experience. With it, we create a consistent and holistic experience through all the interfaces of the journey, in a larger and improved terminal building and in co-operation with the airport community. Concurrently, preparations were started for the rebranding of Keflavík

International Airport in order to further differentiates its brand and image in the international competitive environment as well as in the domestic market.

Excellent Aviation Transportation

Keflavík Airport therefore has the important role of attracting various airlines – flying to various destinations – to Iceland. We systematically work on business development of new routes and increased flight traffic to and from Keflavík Airport with current and new customers. A lot of emphasis was put on getting airlines that were here before the pandemic to start flying again. Most of them returned in 2021 and two airlines returned last year, and one new airline began operations in 2022.

Passenger Satisfaction a Priority

This year, Keflavík Airport received recognition from the Airports Council International (ACI) for the fifth year in a row for being among the best airports of its size category (5-15 million passengers annually) in Europe as regards service quality. A recognition in the ACI service survey is one of the greatest honours available to global airport operators and is given for exceptional service provision and customer experience.

Market and service surveys are carried out regularly at Keflavík Airport and we have carried out co-ordinated service surveys at the airport since 2004. We use an international survey created by the ACI which measures passenger satisfaction at more than 300 airports worldwide. The survey therefore provides a good comparison with other airports.

In 2022, an updated questionnaire was put into use, focusing on both satisfaction with services and the passenger's experience of the terminal. Passenger satisfaction is now measured for 31 service aspects at the airport, in addition to asking about passengers' wellbeing and overall satisfaction and their overall experience of the airport. The results of the survey are published quarterly and used to make improvements in line with the needs of passengers and airlines.

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Keflavík Airport has always scored high among the more than 104 airports in Europe who take part in the ACI survey. There have been, however, isolated periods when overall satisfaction has fallen. This can usually be traced back to renovations of the terminal or a heavy load due to the increased number of passengers.

The Duty Free Store’s Customers

All passengers using Keflavík Airport are potential customers of the Duty Free Store. We want passengers to feel welcome there and greet them with a diverse range of high-quality products and excellent, professional and agile service. There is also a lot of effort made to ensure that the stores are efficient to ensure that no one misses their flight. We meet our customers on their level and constantly work to improve their experience of the Duty Free Store, both at the airport and online. Regular service surveys are carried out to assess quality of service.

Airport Operations Center

The Airport Operations Center (APOC) is intended to further strengthen the co-operation between Isavia and the users who have offices at Keflavík Airport. With a unified control centre for all users, we can achieve increased efficiency, obtain a better overview, shorten the decision-making process and improve the flow of information, making operations more efficient for both Isavia and users of Keflavík Airport. With APOC, we improve the quality of Keflavík Airport and thus further support the vision that the airport will become a hub for aviation in the North Atlantic.

An example of APOC’s important role is work being done on a co-ordinated response of airport users to storms so as to minimise disruptions that could occur at any time. Special weather action meetings are held as required to pass on information and draw up action plans in light of the current forecast.

Development at Keflavík Airport

Ahead is the biggest development period in the history of Keflavík Airport. A new campaign, called KEF+, was presented this year to draw special attention to the scale and scope of the airport’s expansion plans. The plus stands for more – more room, improved capacity, and therefore even better service in line with the needs of the airport community and passengers. Work is currently underway on the so-called East Wing which open in stages from the second half of 2023 until the end of 2024. With the new wing, the service experience at the airport will be improved, with a more spacious baggage claim hall and new retail and dining space.

Isavia holds an invitation to tender for services at Keflavík Airport, and this is part of making the operating environment competitive. The company complies with the laws and regulations on public procurement and all parties must meet the qualification requirements of the invitations to tender in order to be allowed to submit tenders and participate in the evaluation process. The process includes evaluating the quality of the tenders and takes into account, i.a. the product supply, pricing, customer service, design and appearance of the locations and sustainability.

In 2022, we looked for strong business partners to participate in three invitations to tender. There was a lot of interest and a large number of parties who downloaded the tender documents. In addition, we advertised available so-called pop-up operating spaces in the retail and restaurant area of Keflavík Airport, and four Icelandic companies opened temporary branches at the airport in the summer of 2022.



KEF+
www.kefplus.is

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Procurement

Responsible Management of the Supply Chain

The operation of Isavia affects many facets of the Icelandic economy, and our supply chain includes almost 1,900 suppliers. Increased demand for social responsibility encourages continuous improvements to the chain, and its responsible management is an important part of the operation of the company. Managing and maintaining a sustainable supply chain increases the likelihood of economical transactions, reduces operational risks and improves the reputation of Isavia.

Almost 1,900 suppliers were active in the company's supplier register at the end of 2022.

Of these, 87% were domestic suppliers and 13% were foreign suppliers. In the same sense, the share of the Group's total business with domestic suppliers was 89% and was 11% with foreign suppliers. The 10 suppliers with the highest turnover at Isavia accounted for 66% of total turnover in 2022. Among our subsidiaries, the ratio of the 10 suppliers with the highest turnover was as follows: 51% at Isavia ANS ehf., 63% at Isavia Regional Airports ehf. and 65% at Duty Free Store ehf.

The company's suppliers, both Icelandic and foreign, need to register electronically and fill out the supplier registration form on the Isavia website before transactions take place. Among other things, basic information is entered for the company's financial system to ensure an efficient accounting process, which increases the likelihood of economical transactions.

Supplier Code of Conduct

Isavia has issued a Code of Conduct for Suppliers, which all of the suppliers who do business with the Group are expected to adhere to. This Code requires suppliers used by the company to adhere to the rules it contains and to ensure that their own suppliers do likewise. By persuading suppliers to adopt the Code, they are demonstrating social responsibility in line with the United Nations Global Goals on human rights, labour issues, the environment and anti-corruption.

The supplier's Code of Conduct is always included in the tender documents, among other things to limit the likelihood of the use of forced, compulsory or child labour for the production of supplies and

equipment purchased in domestic and international markets. The Code of Conduct for Suppliers is also attached to all our contracts.

The contracts of the company contain personal data protection clauses in accordance with the current General Data Protection regulation of the EU as implemented into the Icelandic legal system.

By the end of 2022, 54% of the company's suppliers had agreed to the Code, of which 93% are domestic suppliers and 7% are foreign suppliers.

Procurement Requirements

Isavia's procurement is governed by legal requirements in Act No. 120/2016 on Public Procurement and Regulation no. 340/2017 on procurement by entities operating in the water, energy, transport and postal services sectors.

All tender procedures and larger requests for quotation have basic eligibility requirements of tendering companies, among other things that they are not in default of withholding tax, public levies and statutory pension fund dues. Tenderers who are in arrears are dismissed.

Our contracts contain provisions for a ban on disguised employment and stipulate that a hiring relationship shall be the main rule in interactions between the staff and the contracting vendor. This is done to ensure that all wage-related payments, whatever their name, be paid and that collective bargaining agreements are adhered to.

To ensure the cost traceability and co-ordinated payment terms, the company's invoicing requirements are always used for procurements. By the end of 2022, 47% of the company's suppliers had agreed to Isavia's invoicing requirements, of which 92% are domestic suppliers and 8% are foreign suppliers.

If suppliers agree to the invoicing requirements, it ensures a 30-day payment period for Icelandic suppliers and 45 days for foreign suppliers, thereby reducing the company's financing costs and increasing the health of cash flow.

In 2022, 15 formal market engagements were conducted where 64 suppliers were spoken to. The purpose was to obtain the best market information in preparation for procurement.

During the year, the procurement, legal, records and information management departments merged into one, which is now located within the finance and human resources division. The department's role is to service Isavia and its subsidiaries in the purchase of all kinds of resources for the operation and development of the company in a professional, economical and lawful manner. During procurement, the aim is to contribute to a circular economy within Isavia with sustainable procurement, responsible utilisation of resources, reuse and recycling.

Customs Process Reform

A large part of the purchases of Isavia come from abroad. Isavia's employees use the Skýlið purchase order system to ensure the traceability of shipments, whether it is general purchases, online purchases or product repair. Thus, we can trace the origin of shipments and see what is expected to arrive in the country and trace the shipment to the relevant company, employee and departments. This minimises waste in the process, harmonises procedures and increases efficiency. A common mailbox was also set up for all cargo notifications, where employees can track communication with carriers. Following this, the purchase request form was updated with an added receipt option.

Dynamic Purchasing System for Vehicles and Industrial Machinery

A dynamic purchasing system for new vehicles and industrial machinery was launched in the year. The system helps us to fulfil Isavia's Sustainability policy of making the operation net zero by 2030 and supports the effort to exchange fossil fuel burning vehicles for ones that burn fuel which is more environmentally friendly.

The dynamic purchasing system neither covers purchases of used vehicles nor alterations to vehicles already owned by Isavia.

Recycling and Waste Collection

To support our sustainability policy, Isavia ohf., along with our subsidiaries, has contracted recycling and waste collection out to Íslenska gámafélagið ehf. The contract includes, among other things, renting containers for the categorisation and collection of waste, the unloading of containers and transportation and delivery of sorted and unsorted waste to recycling and disposal at recognised receiving stations. Particular emphasis is placed on the responsible utilisation of resources, reducing waste as much as possible and increasing recycling.

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Safety and Security

Safety and Occupational Health

Isavia's Occupational Safety and Health Policy covers all activities of the company based on the overall strategy of Isavia. With the policy, Isavia undertakes to be a role model in safety, health and occupational issues, in order to prevent accidents, promoting good working conditions and ensuring a safe and healthy work environment for those who work in and visit the operating units of the company.

In 2022, we continued on the path set in 2021 with a certification, ISO 45001, for occupational health and safety at Isavia. The certification has strengthened occupational health and safety work within the company and resulted in increased safety awareness among employees. We systematically identify risks related to occupational health and safety and take countermeasures where necessary, e.g. by mobilising the staff to make the environment and operations safer. Isavia has a monitoring plan for health aspects in locations that have been considered especially sensitive after a risk assessment, and they are examined with respect to noise, air quality and vibration.

In 2022, safety surveillance on construction site was increased to harmonize operational and construction safety as well as to ensure safety during construction time. This has increased the overall view of the entire company's operations on processing, safety targets, occupational health and safety and environmental and operational deviations.

Safety management, occupational health and safety and security issues belong to the core division of Service and Operations and are therefore directly related to the operation of the airport as well as quality issues. Safety and security work is also done in co-operation with the relevant stakeholders at Keflavík International Airport, where specific working groups are working on joint focus areas in order to increase safety on the apron.

Internal audits of workplace safety and occupational health are regularly performed, and an annual maintenance audit is performed by an external party to maintain ISO45001 certification. Occupational health and safety management system is part of Isavia's quality system.

Safety Reports

Safety Management is responsible for managing reports, registration, as well as improvements and follow up. Good reporting culture is a part of good safety culture. Reports and information from employees regarding accidents and near misses have proven to be important. Safety reports and information are valuable to reduce accidents and increase safety. During the year, work was done on harmonising accident reports and on user-friendly registration, which will simplify processing and follow-up in Isavia's safety management system, Opscom.

Recording of incidents, including accidents and near misses, is done via the Isavia intranet and, for external parties, Isavia's website. The Health and Safety Management is responsible for maintaining a record of these incidents and working on improvements in collaboration with others. Isavia employees are under obligation to provide notification of any incidents, and during investigations, a procedure called Just Culture is maintained.

Safety Committee

A mandatory Occupational Health and Safety Committee is operated with parties across the Group. The Committee consists of both Safety Officers, who are appointed to the Committee by Isavia, and Safety Stewards, who represent the employees. The Chairman of the Committee is an expert in occupational health and safety. The Safety Committee is responsible for reviewing reports from the Administration of Occupational Health and Safety, the status of non-conformities and improvements and examining accidents and notifications. The Safety Committee is intended to promote the safety awareness of employees through training and education and ensure compliance with laws and regulations applicable to the operation. Emphasis has been put on the Committee members being more involved in the formal occupational health and safety issues of the company, e.g. in relation to job risk assessments.

Isavia's Employees Work Related Injuries	2020	2021	2022
Total injuries	39	37	58
First-aid injuries	16	18	31
Care injuries	19	13	10
Time loss injuries	4	6	17
Rate of recordable work related injuries per 200.000 hours	4.06	4.04	5.36

Cause of Injury	2022
Slip on plain ground	26
Impact	9
Fall	6
Sharp object	5
Clash	4
Jam	2
Physical stress	2
Chemical spray	1
Vertical movement	1
Loose control of lifting equipment	1
Overload	1
Stab	1
total	59

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Education and Training

There was a strong focus on education about security and occupational health and safety during the year. We implemented numerous courses to support that, including on general occupational health and safety awareness, safety for contractors and tradesmen, notification of incidents and specific education for defined groups such as drivers. The right response following an accident can save lives, which is why frontline staff at the Leifur Eiríksson Air Terminal receive appropriate training in first aid, which is also available to all our staff who so choose. About 150 people completed first aid training during the year. Special evacuation officers are in all areas of the terminal, both staff from Isavia and other operators, and completed 64 courses for evacuation officers. This year, the rule was introduced that all employees who receive an access pass to Keflavík Airport must now complete a course on occupational safety and health before the start of their employment. All contractors and tradesmen who work at Keflavík Airport have to complete a special safety course, and the tradesmen of Isavia ohf. completed specific work safety courses with emphasis on work at a height, work in enclosed spaces and risk assessment.

Isavia's Safety Week

The annual Isavia Safety Week was held in October 2022. The week started with a fun presentation by different employees entitled What Is Safety? It covered how the concept of safety affects us differently every day and how everything we do is related in one way or another to our own responsibility for our environment. Emphasis was also placed on the participation of employees, e.g. with the creation of the checklist Safety in Your Workplace, which both management and staff were involved in filling out.

The staff of the Isavia School took an active part in the preparation and implementation of the Safety Week by producing videos, including on driving behind the push of an aircraft, health and safety awareness, cybersecurity and incident reporting. Lectures were streamed so that as many as possible could participate.

Information Security and Personal Data Protection

The protection of information systems that are necessary for the company's operation is a priority at Isavia. We operate within a strict framework, follow the criteria of the information security standard ÍST EN ISO/IEC 27001 and use formal procedures that both support continuous operations and minimise operational risks. The company's Information Security Policy was established in 2018 and is regularly reviewed and updated.

Responsible handling of information also extends to third parties. This applies to all information from third parties that Isavia has in its possession and/or which the company has asked a third party to manage



From exercise at Keflavik Airport

on its behalf. In 2022, there were no reports of breaches or complaints regarding the privacy of Isavia's customers. It applies equally to both customers and regulatory bodies.

We place great emphasis on a secure IT environment, and the knowledge, skills and professionalism of our staff play a key role there. We employ experts in information security who have received specific training, both in terms of the operation of network and information systems and the operation of information security and personal data protection processes. Every year, a number of tests are carried out regarding the company's security network and information infrastructure. We use approved and certified methods to minimise threats and risks that may threaten our network and information systems. We also work systematically to limit the extent to which personal information is processed and to ensure the safety of such information across the company. In the event of a personal data breach, a strict process is followed in terms of investigation, processing and improvements.

Information Security Collaboration

Our experts work closely with external partners in the field of cyber and information security. The goal is to develop the company's security posture further and according to best practices.

In 2022, we worked with Iceland's leading experts to further increase Isavia's monitoring with the company's Internet and information systems. This year, national collaboration also increased with the establishment of field groups of the national CERT team, CERT-IS. The groups are specifically aimed at the activities of operators in the field of critical infrastructure. As the number of incidents that directly affect the network and information systems of critical infrastructure can be expected to increase in the coming years, a co-ordinated response by security parties will be crucial. Collaboration under the auspices of CERT-IS is, and will be, an important link in that response.

Furthermore, Isavia has become a member of Aviation ISAC, an organisation focussed on information security in the aviation industry.

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Development and Expansion

Development at Keflavík International Airport

The Leifur Eiríksson terminal at Keflavík International Airport was inaugurated and put into use in April 1987. It was, at the time, around 20,000 m². At present, it is approximately 73,000 m², 3.5 times larger than when opened. During the terminal's first year of operation, 750 thousand passengers passed through it. In 2022, around 6.1 million passengers passed through the airport, which is considerably more than forecasts assumed at the beginning of the year. The passenger forecast for 2023 assumes 7.8 million passengers.

It is clear that significant investment will be needed in the infrastructure at Keflavík Airport if this increased number of passengers is to be met in a manner that complies with international service standards and Isavia's ambition for a positive passenger experience.

The Masterplan for Keflavík Airport is made to assess the need for investment and is based on an extensive passenger analysis, time and cost estimates for individual projects, and the internal phasing of projects.

The year 2022 was the most extensive year in investments at Keflavík Airport to date. A total of ISK 14.4 billion was invested, but for comparison, the overall development in the last 10 years was ISK 70 billion at real value. The investment plan for 2023 assumes that investments in the year will be even more extensive than in 2022.

The British construction and consultancy firm Mace has, as of the beginning of 2020, worked as Isavia's partner in the development of Keflavík Airport. The company will be responsible for project management and supervision as regards upcoming construction. It will also provide invaluable expertise in the preparation of such large projects.

In addition, the company will also provide consultancy services for other Isavia projects at Keflavík Airport, including a connecting building for the widening of the pier between the north and south building of the terminal.

The work Mace has done during the year has included the organisation of project management, project governance, risk assessment, communications with stakeholders, sustainability and more.

All projects relating to the expansion of the terminal are designed with the aim of being certified according to the environmental certification system BREEAM.



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Air Terminal Systems

Construction began in early summer 2021 in preparation for the expansion of the terminal's north buildings to the east. This is a new 20,000 square metre extension to the terminal, that includes almost 30% expansion. In 2022, earthworks were completed and most of the load bearing structure was built. The building will have three floors and a basement and will be taken fully into service in 2024.

The east building is an important milestone in the Masterplan of the airport. The first phase involves the installation of a new, high-performance luggage reception system on the ground floor, which will be completed in 2023. The passenger arrival hall will be much more spacious and the Duty Free shop will be expanded. On the second floor, new retail and service space will be created and the waiting area for passengers will be significantly expanded. Part of the project is also construction on a total of four new aircraft stands that will be connected to the terminal by boarding bridges (PPBs).

At the terminal's south building (Stand 10), construction on a two-story extension will begin in April 2023. This will improve facilities for passengers passing through the departure gates at the east end of the building. Part of the project is the construction of a new PPB and aircraft travel routes need to be changed through operations on the ground.

Due to the implementation of European Regulations on borders in 2023, changes must be made to the arrival and departure systems at the terminal. A single-story extension was erected at the southern end of the terminal to meet these border requirements (Stand 6). This is a temporary location, but the building will be taken down and rebuilt in a new location.

The next major phase in the development of the airport terminal will be the expansion of the connection between the north and south buildings. The current pier will be widened and with a new and bright central space, a better connection will be created between the wings of the airport. Facilities for arriving passengers will be improved with better passport control, a new duty-free shop, and increased service areas. Design work is currently underway, and construction is anticipated to begin in 2025.

Runway Systems

The runway systems projects are intended to increase the capacity and safety of runways and eliminate bottlenecks that could form there. Mike is a new taxiway for aircraft and is about 1200m long and 35m wide. Construction has started, but paving and other smaller packages have yet to be tendered. Three layers of asphalt must be laid, which in total amount to about 160,000 square meters, and could cover 23 Laugardalsvöllur football pitches. The project was largely completed in 2022 and will be completed in the summer of 2023.



Design has also begun on improved aircraft de-icing facilities. The facility will be in a special area, and with its inception, it will be possible to collect excess de-icing liquid that is generated during the de-icing of aircraft. In addition, there is an advantage in moving de-icing away from the terminal, as it reduces the waiting time of aircraft at the gate.

Access, Car Parks and Traffic System

A special Development Plan for the terminal forecourt was approved by Isavia's board in autumn 2022. The Development Plan takes into account the needs and improved passenger experience and income possibilities regarding a possible hotel, transportation and shopping and services outside the restricted area.

In order to meet the increased traffic of tourists through the airport, the number of long-term and short-term parking spaces for passengers will be increased, along with parking spaces for employees. Two parking garages on four floors with a basement are planned. The first one will be built on the west side of the terminal (on the current P1) and will be able to store around 1,800 cars. A parking garage north of the terminal is planned in accordance with the long-term development of the airport.

Construction at Regional Airports

Every year we work on maintenance projects at Isavia's domestic airports. These include runways, airports and terminals, along with other buildings and service roads that the company operates and funds are provided for pursuant to current Transport Plan. At all airports, regular maintenance and painting of runways was performed, renewal of meteorological equipment as well as mandatory checks and updates of approach procedures.

The biggest project of the year was the asphaltting and respraying of runways at Reykjavik Airport which began in 2022. This is the largest single project at Reykjavik Airport in 20 years, with more than 110,000 square meters of runways, aprons and service roads asphalted. The asphalt that was generated during the construction was used as a surface layer for the largest parking lot at the airport, instead of being sent for disposal. The asphaltting proceeded beyond expectations thanks to the good organisation, co-operation and flow of information between all parties involved at the airport.

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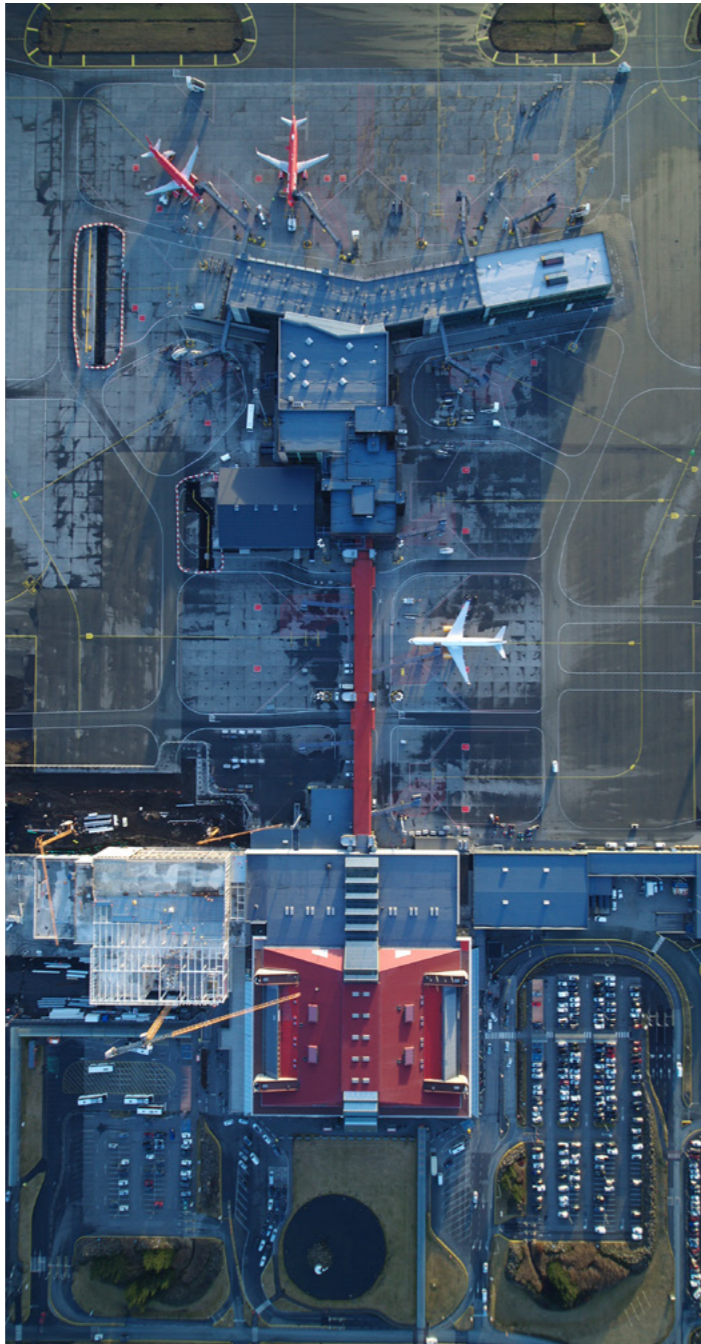
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Several necessary maintenance projects were also carried out at Reykjavik Airport, e.g. in the airport services facility, a fence was renewed on a section, the number of pedestrian gates increased, new facilities for border and customs guards were installed, among others.

Other major projects to note were the respraying and painting at Vestmannaeyjar Airport and at the airport at Bakki. At Stykkishólmur, a new layer of gravel was laid over the runway, and at Rif, local asphalt repairs were carried out on the apron. At Bildudalur Airport, the construction of a new machine shed was completed, so it will now be possible to store all the airport's service equipment indoors. Work was done to renew the runway lights on the airport and that project will be completed in 2023.

Construction of a new terminal and apron continued at Akureyri Airport. The circumstances in the world market resulted in a delay in the delivery of the terminal's steel structure. It is expected that the terminal will be ready in the spring of 2024. The lower base layer on the new apron was completed and construction on the upper base layer began.

At Húsavík Airport, preparations are being made for extensive repairs to the tower. During the construction, air traffic controllers will provide information from a new facility in a service building where all aircraft movements on the airport will be monitored with cameras. This can be said to be an indicator of the first Remote tower in Iceland.

Respraying and painting took place at Þórshöfn Airport, and at Norðfjörður Airport, electrical wiring was renewed for new runway lights, but new LED runway lights will be installed there next year. At Egilsstaðir Airport, preparations were being made for the design of an expansion of the apron as well as a new taxiway along the airport's runway. Work began on raising the service road between Eyvindará and the airport, which will protect against spring floods from ice dams in the river.

The design of approach lights at Egilsstaðir Airport and Akureyri Airport was completed. At Reykjavik Airport, the approach lights on runway 13 are in the land-use plan, but the final design is being worked on. A deviation from the Icelandic Transport Authority is in place for these three international airports because of this.

Isavia ANS

Projects relating to the renewal of the Polaris flight data system of the Air Traffic Control Centre were continued. The system is designed by Tern Systems, a subsidiary of Isavia ANS, in co-operation with Isavia ANS. The first part of the system was put into use at the Keflavik tower and Faxi approach services in the second half of the year.

Digital Development

We work systematically on creating a digital platform for staff, customers and the airport community as a whole. The Digital Development Department initiates technological innovation with the aim of implementing digital solutions that maximise Isavia's profitability and improve the passenger experience.

Check-in Solutions

This year, the implementation of a new check-in solution from Amadeus began. It replaces the older solution from Sita. The implementation was split into three phases. At the beginning of 2022, the solution was installed on 135 computers on counters in the departure hall and at the departure gate. In mid-summer, 50 new self-service machines were installed to replace 70 older machines from Sita. By the end of the year, eight airlines, which carry about 75% of the passengers who pass through the airport, had started to use the option of check-in with self-service machines. The third phase is the replacement of self-service equipment at the bag reception. It is estimated that the implementation will be completed in 2023. With a new check-in solution, it will be possible to further increase service to both users and passengers at the airport.

Diverse Improvement Projects

We continued to develop the Jira request system, which was implemented at the end of 2021. A service desk has been installed and processes have been improved at seven departments within the company.

An order website for the Isavia School's courses was opened this year. The website makes it easier for the large number of staff who attend the school to manage registration and review of their own courses, improves services and procedures for general administration and creates income for the company in cases where courses are sold to third parties for training and education.

A new website and project registries for Isavia ANS was launched during the year. A solution was implemented to manage employee email signatures, along with a new solution that manages employee canteen expenses.

A digital workforce, or Robotic Process Automation was implemented at the Airport Security access office for access passport administration. RPA will speed up issuance with fewer steps, thereby increasing efficiency. Ahead is further analysis of processes within Isavia that can be refined with RPA.

We also have many other exciting projects in the works. These include the introduction of smart boxes where products can be received and returned automatically, the installation of digital screens with Dynamic Wayfinding and analysis of digital solutions useful to passengers, such as interactive maps for the terminal.

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Statement of use	Isavia has reported in accordance with the GRI Standards for the period 1. January - 31. December 2022
GRI 1 used	GRI 1: Foundation 2021
Applicable GRI Sector Standard(s)	GRI-G4 Airport Operators Sector Disclosure

GRI STANDARD	DISCLOSURE	LOCATION	REQUIREMENTS FULFILLED AND IF NOT, REASON FOR OMISSION	EXPLANATION	UNGC	SDG
General disclosures						
GRI 2: General Disclosures 2021	2-1 Organizational details	The Board of Directors and Corporate Governance Operations				
	2-2 Entities included in the organization's sustainability reporting			Isavia ohf. and its subsidiaries		
	2-3 Reporting period, frequency and contact point			Isavia's annual report and consolidated financial statement cover the calendar year 2022. The date of publication of the Annual Report is 22 March 2023 and the report is published annually. For further information about the contents of the report sustainability@isavia.is		
	2-4 Restatements of information			-The company's carbon footprint has been calculated against new emission standards that give a better overview of all three phases of the track. -Information on hot water and electricity consumption for 2021 has been updated in terms of actual use vs. estimate. -Information on the number of work-related accidents for 2021 has been updated after the update of the data. The number was said to be 31 in 2021 but was 37 accidents. -The maternity leave table had the wrong numbers. The correct figures for 2021 were that 105 took parental leave, i.e. 46 women and 59 men -In a table in Material Aspects, the material issue of Digital Technology was misspelled as Digital Device		
	2-5 External assurance	Material Aspects		The National Audit Office and independent GRI advisor		
	2-6 Activities, value chain and other business relationships. Additionally, for airports: Catchment area for passengers and cargo originating in the vicinity of the airport, estimated number of employees in the reporting organization, size of airport, number and length of runways, stating whether they are primary or crosswind runways, minimum connection time between flights at the airport, number of operations, number of airlines served, and number of destinations served.	Operations Value Creation Procurement Customers Key Figures Consolidated Financial Statement				

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GRI STANDARD	DISCLOSURE	LOCATION	REQUIREMENTS FULFILLED AND IF NOT, REASON FOR OMISSION	EXPLANATION	UNGC	SDG
	2-7 Employees	Human Resources		We define Iceland as one area in our numbers. When presenting data that require breakdown of gender, the information is grouped by women or men. No employee is registered as genderqueer or otherwise in our information systems, although this possibility exists.	6	8
	2-8 Workers who are not employees	Human Resources	Partially fulfilled. The figures include Mace employees who work as specialists at Isavia workplaces, but do not include those consultants who work regularly for Isavia and do not have workplaces at Isavia.		6	
	2-9 Governance structure and composition	The Board of Directors and Corporate Governance Corporate Governance Statement			10	5
	2-10 Nomination and selection of the highest governance body	The Board of Directors and Corporate Governance				5
	2-11 Chair of the highest governance body	Corporate Governance Statement				
	2-12 Role of the highest governance body in overseeing the management of impacts	The Board of Directors and Corporate Governance Strategy and Future Development Corporate Governance Statement				
	2-13 Delegation of responsibility for managing impacts	Strategy and Future Development				
	2-14 Role of the highest governance body in sustainability reporting	Strategy and Future Development		The CEO is the controller of the annual report		
	2-15 Conflicts of interest	The Board of Directors and Corporate Governance Corporate Governance Statement				
	2-16 Communication of critical concerns	Rules of Procedure for the Board of Directors	The Rules of Procedure of the Board of Directors explain how major issues are communicated to the Board. Isavia makes public some of the matters submitted to the Board of Directors, such as interim and annual financial statements, but is otherwise bound by confidentiality regarding the matters under consideration.			
	2-17 Collective knowledge of the highest governance body	Strategy and Future Development	Partially met – the Board of Directors discusses sustainability issues			
	2-18 Evaluation of the performance of the highest governance body	The Board of Directors and Corporate Governance Corporate Governance Statement				
	2-19 Remuneration policies	Remuneration Policy				
	2-20 Process to determine remuneration	Rules of Procedure of the Isavia ohf. Remuneration Committee				

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GRI STANDARD	DISCLOSURE	LOCATION	REQUIREMENTS FULFILLED AND IF NOT, REASON FOR OMISSION	EXPLANATION	UNGC	SDG
	2-21 Annual total compensation ratio			The ratio of the total remuneration of the company's highest paid person to the median total remuneration of full-time employees is 4.96. The percentage increase between 2021 and 2022 of the total remuneration of the highest paid person and the median total remuneration of full-time employees is 1.32		
	2-22 Statement on sustainable development strategy	Introduction by CEO				
	2-23 Policy commitments	Strategy and Future Development				
	2-24 Embedding policy commitments	Strategy and Future Development				
	2-25 Processes to remediate negative impacts	Strategy and Future Development Operations Material Aspects Quality of Life				
	2-26 Mechanisms for seeking advice and raising concerns			The company ensures certain protection for employees who report criminal offences or other reprehensible conduct in their operations, in accordance with Act No. 40/2020, on the Protection of Whistleblowers. An employee who possesses information or data regarding violations of law or other reprehensible conduct in the group's operations must report such fact. A process has been put in place to make it easier for employees to communicate such information anonymously through the company's website.		
	2-27 Compliance with laws and regulations			No judgments or penalties have been imposed on Isavia in 2022 due to environmental or socioeconomic issues.		
	2-28 Membership associations			Airport Council International (ACI), American-Icelandic Chamber of Commerce, Borealis, co-operative forum for flight navigation service providers in North-West Europe, Civil Air Navigation Services Organisation (CANSO), Danish-Icelandic Chamber of Commerce, Festa, Icelandic Centre for Corporate Social Responsibility, French-Icelandic Chamber of Commerce, IMARK – Marketing Association of Iceland, Iceland Ocean Cluster, Mannauður, Association of Human Resources Managers, NAT-SPG, co-operative forum of States within the ICAO NAT Region, Confederation of Icelandic Employers, Association of Reykjanes Employers, Icelandic Travel Industry Association, Ský, Association of IT people, Excellence Iceland (Stjórnvísir), United Nations Global Compact, Project Management Association of Iceland		
	2-29 Approach to stakeholder engagement	Material Aspects				
	2-30 Collective bargaining agreements	Human Resources			3	8

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GRI STANDARD	DISCLOSURE	LOCATION	REQUIREMENTS FULFILLED AND IF NOT, REASON FOR OMISSION	EXPLANATION	UNGC	SDG
Material topics						
GRI 3: Material Topics 2021	3-1 Process to determine material topics	Material Aspects				
	3-2 List of material topics	Material Aspects				
Economic performance						
GRI 3: Mikilvægisþættir 2021	3-3 Management of material topics	The Board of Directors and Corporate Governance Risk Management Strategy and Future Development Operations Value Creation Material Aspects				
GRI 201: Efnahagsleg frammistaða 2016	201-1 Direct economic value generated and distributed	Value Creation Consolidated Financial Statement				8
Indirect economic impacts						
GRI 3: Material Topics 2021	3-3 Management of material topics	The Board of Directors and Corporate Governance Risk Management Strategy and Future Development Operations Value Creation Material Aspects				
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported. Additionally, for airports: Relevance to the airport sector because of high impact on local economies	Strategy and Future Development Value Creation				
	203-2 Significant indirect economic impacts	Strategy and Future Development Value Creation				8
Procurement practices						
GRI 3: Material Topics 2021	3-3 Management of material topics	Strategy and Future Development Value Creation Material Aspects Procurement				
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	Procurement		We define Iceland as one area in our numbers.		8,12
Energy						
GRI 3: Material Topics 2021	3-3 Management of material topics	Strategy and Future Development Value Creation Material Aspects Climate Issues				

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GRI STANDARD	DISCLOSURE	LOCATION	REQUIREMENTS FULFILLED AND IF NOT, REASON FOR OMISSION	EXPLANATION	UNGC	SDG
GRI 302: Energy 2016	302-1 Energy consumption within the organization	Climate Issues			7,8	8,12
	302-2 Energy consumption outside of the organization	Climate Issues			8	8,12
	302-4 Reduction of energy consumption Additionally, for airports: Important for airports to share sectoral best practice	Climate Issues			8,9	13
Water and effluents						
GRI 3: Material Topics 2021	3-3 Management of material topics	Strategy and Future Development Material Aspects Resource Efficiency				
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource	Resource Efficiency				
	303-2 Management of water discharge-related impacts	Resource Efficiency				
	303-3 Water withdrawal	Resource Efficiency				
Biodiversity						
GRI 3: Material Topics 2021	3-3 Management of material topics	Strategy and Future Development Value Creation Quality of Life				
GRI 304: Biodiversity 2016	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations			On Isavia's home page you can find information on the species of animals that have been seen at Isavia airports.		
Emissions						
GRI 3: Material Topics 2021	3-3 Management of material topics	Strategy and Future Development Value Creation Material Aspects Climate Issues Quality of Life				

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GRI STANDARD	DISCLOSURE	LOCATION	REQUIREMENTS FULFILLED AND IF NOT, REASON FOR OMISSION	EXPLANATION	UNGC	SDG
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	Climate Issues			7,8	13
	305-2 Energy indirect (Scope 2) GHG emissions	Climate Issues			7,8	13
	305-3 Other indirect (Scope 3) GHG emissions	Climate Issues			7,8	13
	305-4 GHG emissions intensity	Climate Issues			8	13
	305-5 Reduction of GHG emissions Additionally, for airports: Reference to ACI-ACA Airport Carbon Accreditation Program	Climate Issues				8,9
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	Quality of Life			7,8	13
Waste						
GRI 3: Material Topics 2021	3-3 Management of material topics	Strategy and Future Development Value Creation Material Aspects Resource Efficiency				
GRI 306: Effluents and waste 2016	306-3 Significant spills	Resource Efficiency			8	12
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts	Resource Efficiency			8	12
	306-2 Management of significant waste-related impacts	Resource Efficiency			8	12
	"306-3 Waste generated Additionally, for airports: Report on the weight of waste from international flights"	Resource Efficiency			8	12
Employment						
GRI 3: Material Topics 2021	3-3 Management of material topics	Strategy and Future Development Value Creation Material Aspects Human Resources				
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	Human Resources			6	5,8
	401-3 Parental leave	Human Resources			6	5,8

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Labor/management relations						
GRI 3: Material Topics 2021	3-3 Management of material topics	Strategy and Future Development Material Aspects Human Resources				
GRI 402: Labor/Management Relations 2016	402-1 Minimum notice periods regarding operational changes	Human Resources			3	8
Occupational health and safety						
GRI 3: Material Topics 2021	3-3 Management of material topics	Strategy and Future Development Value Creation Material Aspects Quality of Life Human Resources Safety and Security				
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	Human Resources Safety and Security				3,8
	403-2 Hazard identification, risk assessment, and incident investigation	Safety and Security				8
	403-3 Occupational health services	Human Resources Safety and Security				8
	403-4 Worker participation, consultation, and communication on occupational health and safety	Safety and Security				8
	403-5 Worker training on occupational health and safety	Human Resources Safety and Security				8
	403-6 Promotion of worker health	Human Resources Safety and Security				3
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Safety and Security				
	403-8 Workers covered by an occupational health and safety management system	Human Resources Safety and Security	Partially met - missing data			8
	403-9 Work-related injuries	Safety and Security				
Training and education						
GRI 3: Material Topics 2021	3-3 Stýring mikilvægipátta	Strategy and Future Development Value Creation Material Aspects Human Resources				

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GRI STANDARD	DISCLOSURE	LOCATION	REQUIREMENTS FULFILLED AND IF NOT, REASON FOR OMISSION	EXPLANATION	UNGC	SDG
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	Human Resources			6	8
	404-2 Programs for upgrading employee skills and transition assistance programs	Human Resources			6	8
	404-3 Percentage of employees receiving regular performance and career development reviews	Human Resources			6	8
Diversity and equal opportunity						
GRI 3: Material Topics 2021	3-3 Management of material topics	Strategy and Future Development Value Creation Mikilvægir þættir Human Resources				
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	Human Resources	Partially met. Item b is not classified by job title only age		6	5,8
	405-2 Ratio of basic salary and remuneration of women to men	Human Resources			6	5,8,10
Non-discrimination						
GRI 3: Material Topics 2021	3-3 Management of material topics	Strategy and Future Development Value Creation Material Aspects Human Resources				
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	Human Resources			6	5,8
Forced or compulsory labor						
GRI 3: Material Topics 2021	3-3 Management of material topics	Strategy and Future Development Value Creation Material Aspects Human Resources Procurement				
GRI 409: Forced or Compulsory Labor 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	Procurement Supplier Code of Conduct			4	8,12

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GRI STANDARD	DISCLOSURE	LOCATION	REQUIREMENTS FULFILLED AND IF NOT, REASON FOR OMISSION	EXPLANATION	UNGC	SDG
Local communities						
GRI 3: Material Topics 2021	3-3 Management of material topics	Strategy and Future Development Value Creation Material Aspects Quality of Life Development and Expansion				
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	Strategy and Future Development Value Creation Development and Expansion			1	17
	413-2 Operations with significant actual and potential negative impacts on local communities	Strategy and Future Development Value Creation Development and Expansion			1	
Customer privacy						
GRI 3: Material Topics 2021	3-3 Management of material topics	Strategy and Future Development Material Aspects Safety and Security				
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	Safety and Security				

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GRI STANDARD	DISCLOSURE	LOCATION	REQUIREMENTS FULFILLED AND IF NOT, REASON FOR OMISSION	EXPLANATION	UNGC	SDG
GRI-G4 Airport Operators Sector Disclosure						
GRI A01	Total number of passengers annually, broken down by passengers on international and domestic flights and broken down by origin and destination and transfer, including transit passengers	Key Figures Operations				
GRI A02	Annual total number of aircraft movements by day and by night, broken down by commercial cargo, general aviation and state aviation flights	Key Figures Operations				
GRI A03	Total amount of cargo tonnage	Key Figures Operations				
GRI A04	Quality of storm water by applicable regulatory standards	Resource Efficiency	Partially met - missing data			
GRI A05	Ambient air quality levels according to pollutant concentrations in microgram per m ³ or parts per million (ppm) by regulatory regime	Quality of Life				13
GRI A06	Aircraft and pavement de-icing /anti-icing fluid used and treated by m ³ and/or tonnes	Resource Efficiency				12,13
GRI A07	Number and percentage change of people residing in areas affected by noise	Quality of Life				
GRI A08	Number of persons physically or economically displaced, either voluntarily or involuntarily, by the airport operator or on its behalf by governmental or other entity, and compensation provided			No such cases reported		
GRI A09	Total annual number of wildlife strikes per 10.000 aircraft movements	Quality of Life				

Isavia ohf.

Consolidated Financial Statements

2022

These consolidated financial statements 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

Isavia ohf.

Consolidated Financial Statements

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Statement by the Board of Directors and Managing Director

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.

The purpose of the Isavia Group is aviation-related service activities and the operation and development of the country's airports. The Consolidated Financial Statements of Isavia ohf. includes, in addition to the parent company, the subsidiaries Isavia ANS ehf., Isavia Innanlandsflugvöllir ehf. and Frihöfnin ehf. Isavia ANS ehf. owns the subsidiaries Tern Systems ehf. and Suluk ApS and Tern Systems ehf. owns the subsidiary Tern Branch Hungary.

The consolidated accounts for 2022 are drawn up in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union as well as with supplementary requirements in the Annual Accounts Act. The Condensed Consolidated Financial Statements are presented in Icelandic krona (ISK), which is the functional currency of the Consolidation. All amounts are in ISK thousands, unless stated otherwise.

Operations in 2022

According to the statement of income and expenditure of Isavia ohf., total operating income in 2022 amounted to ISK 36.505 million (2021: ISK 20.843 million). The loss for the year amounted to ISK 617 million (2021: ISK 321 million gain). The negative exchange rate difference amounted to ISK 868 million (2021: positive ISK 1.955 million). Wages and other staff costs amounted to ISK 19.395 million (2021: ISK 14.880 million), and the average number of staff in 2022 was 1.247 (2021: 1.022). The gender ratio among the staff and managers is 72% men and 28% women.

On December 31st 2022, the total assets of the consolidated group amounted to ISK 94.278 million (2021: ISK 88.107 million). Equity at the end of 2022 amounted to ISK 41.962 million (2021: ISK 36.579 million) and the equity ratio for the consolidated group was 44,5% at the end of the year (2021: 41,5%).

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 15 to the annual accounts regarding this issue.

The Board proposes that the loss of the year be carried over to next year and in other respects refers to the consolidated annual accounts regarding other changes in the assets of the company.

Share capital

At the end of the year, the share capital amounted to ISK 24.559 million (2021: ISK 18.559 million). The share capital was increased by ISK 6.000 million during the year (2021: ISK 9.000 million). The government is the sole owner of Isavia ohf. at the end of year 2022 as at the end of the year 2021.

The Group's Board of Directors proposes that no dividend be paid to the company's owner for the 2022 operating year.

Governance

The Board of Isavia has set operating rules for itself that, inter alia, define the main tasks and areas of competence of the Board and the CEO. The rules are accessible on the website of the company. The rules state, inter alia, that the Board of the company shall adhere to the guidelines on corporate governance issued by the Icelandic Chamber of Commerce, SA Association of Icelandic Enterprise and Nasdaq OMX Iceland.

In accordance with the above guidelines on good governance and the Annual Accounts Act, the Board of Isavia has prepared a statement of governance that can be accessed on the company's website as well as in Appendix I to the annual accounts.

The Board of Isavia consists of five members, two women and three men. The gender ratio is in accordance with laws stating that companies with more than 50 employees shall ensure that the ratio of each gender on the Board shall not be lower than 40%.

There are two committees operating, the audit committee and the emoluments committee. These committees are entrusted with the task of improving working practices in areas under the auspices of the Board, thus improving the efficacy of the work of Board members. For further information, see the website of the company and Appendix I.

Statement by the Board of Directors and Managing Director

Ownership policy

An owner's policy has been established for the subsidiaries of Isavia ohf., where an effort is made to clarify the responsibilities and roles of the owner, the company, the board and management in order to promote good governance and a clear strategy. In this way, the owner's policy is to ensure transparent, professional and efficient management of subsidiaries. Appendices have also been made that state policies, rules and guidelines that are followed on a consolidated basis. These include human resources policy, sustainability policy, comprehensive risk management policy, code of conduct and handling of personal information, to name a few. The owner's policy together with an appendix is available on the company's website www.isavia.is.

Future prospects

The group's turnaround following the pandemic exceeded the company's plans for 2022, and it can be considered that full recovery has been achieved at Keflavík Airport by the middle of 2022. The company's plans for 2023 assume continued growth in the group's income and performance alongside increased activity in air traffic. It is therefore the assessment of the board of directors and the CEO that the group's going concern is strong and that the company is well equipped to deal with the future air traffic and increase in passengers at the group's airports, together with the development of the infrastructure planned at Keflavík Airport in the coming years.

Community responsibility and non-financial information disclosure

Isavia's activities fall under the provisions of the Annual Accounts Act on non-financial disclosure. The Isavia group has a sustainability policy that states that the company has sustainability as its guiding principle in everything it does. The strategy is supported by five-year action plans valid until the end of 2026.

Isavia has supported the UN Global Compact since 2016. With this, the company commits itself to ensure that policy and practices are in line with the ten main principles of the United Nations on human rights, labour issues, environmental issues and anti-corruption measures. The company supports the United Nations' Global Goals for Sustainable Development and works systematically towards them.

The annual and community relations report of Isavia is issued according to an international standard of the Global Reporting Initiative (GRI) along with special provisions applying to airports. The report explains the points of emphasis, objectives, key criteria and the progress of Isavia towards reaching increased sustainability. Further information from the report on non-financial information is to be found in Appendix II.

Isavia turns in an annual and community report to the UN Global Compact and Global Reporting Initiative. The report is turned in for the seventh time in this manner. Further information on the non-financial issues of the company can be accessed in the annual and community report at isavia.is/arsskyrsla.

Statement by the Board of Directors and Managing Director

The statement of the Board and Managing Director

The Board and the Managing Director confirm, to the best of their knowledge, that the consolidated accounts give a true and fair view of the operating results of the consolidated group, its assets, liabilities and changes in liquidity in 2022.

In the opinion of the Board and the Managing Director of Isavia ohf., the accounting rules of the company are appropriate and the consolidated accounts 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 and Managing Director have reviewed and approved the consolidated annual accounts of the company for 2022 with their signatures and propose that the Annual General Meeting of the company approve the consolidated accounts.

Hafnarfjörður, March 8th 2023

Board of Directors

Kristján Þór Júlíusson
chairman of the Board

Hólmfríður Árnadóttir
board member

Matthías Páll Imsland
board member

Jón Steindór Valdimarsson
board member

Nanna Margrét Gunnlaugsdóttir
board member

Managing Director

Sveinbjörn Indriðason

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Isavia ohf.

Opinion

We have audited the consolidated financial statements of Isavia ohf. for the year ended December 31, 2022. The consolidated financial statements comprise the income statement, the balance sheet, the statement of changes in equity, statement of cash flows, notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Isavia ohf. as at December 31, 2022, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of Isavia ohf. and have conducted our work in accordance with Act no. 94/2019 on Auditors and auditing and Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the consolidated financial statement.

Other information

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying report of the board of directors includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the financial statements.

Responsibilities of the Board of Directors and the CEO for the Consolidated Financial Statements

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and the CEO are responsible for assessing Isavia ohf.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Board of Directors and the CEO either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for monitoring the preparation and presentation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the Consolidated Financial Statements. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Icelandic National Audit Office, March 8th, 2023

Hinrik Þór Harðarson
State Authorized Public Accountant

Consolidated income statement year 2022

	Notes	Consolidation	
		2022	2021
Operating revenues	4	36.505.496	20.842.888
Operating expenses			
Cost of goods sold		(5.949.952)	(2.466.741)
Salaries and related expenses	5	(19.394.692)	(14.879.606)
Administrative expenses		(586.764)	(396.370)
Other operating expenses		(5.409.159)	(3.910.571)
		<u>(31.340.568)</u>	<u>(21.653.288)</u>
Operating gain (loss) before depreciation		5.164.929	(810.400)
Depreciation and amortization	9,10,11	(3.931.571)	(3.910.854)
Operating gain (loss)		1.233.358	(4.721.254)
Financial income	7	386.894	2.919.502
Financial expenses	7	(1.561.140)	(1.309.448)
Net exchange rate differences	7	(867.962)	1.955.093
		<u>(808.850)</u>	<u>(1.156.107)</u>
Loss before taxes		(808.850)	(1.156.107)
Income tax	8	191.477	1.476.997
		<u>191.477</u>	<u>1.476.997</u>
(Loss) profit for the year		<u>(617.373)</u>	<u>320.890</u>

Consolidated Statements of Financial Position December 31st 2022

Assets	Notes	Consolidation	
		31.12.2022	31.12.2021
Non-current assets			
Property, plant and equipment	9	71.304.316	59.636.877
Intangible assets	10	4.034.412	4.355.599
Right of use asset	11	289.041	361.213
Shares in other companies		5.000	0
Bonds	13	1.499.630	1.994.507
Deferred tax asset	18	1.370.781	1.178.092
		<u>78.503.180</u>	<u>67.526.288</u>
Current assets			
Inventories	14	581.817	416.507
Accounts receivables	15	3.413.079	3.172.511
Current maturities of long-term assets	13	498.865	527.503
Other receivables	15	1.785.732	1.781.052
Cash and cash equivalents	15	9.494.864	14.682.766
		<u>15.774.357</u>	<u>20.580.337</u>
Total assets		<u><u>94.277.537</u></u>	<u><u>88.106.625</u></u>
Equity and liabilities			
Equity			
Share capital	16	24.559.063	18.559.063
Statutory reserves		2.483.798	2.483.798
Revaluation reserves		38.389	39.712
Retained earnings		14.880.906	15.496.253
Total equity		<u>41.962.156</u>	<u>36.578.827</u>
Non-current liabilities			
Loans from credit institutions	17	42.372.010	42.617.951
Lease agreements	11	194.284	276.036
		<u>42.566.294</u>	<u>42.893.988</u>
Current liabilities			
Accounts payable	19	4.705.041	3.800.969
Current maturities of loans from credit institutions	17	1.758.655	1.829.083
Current maturities of lease agreements	11	108.594	94.606
Current tax liabilities	8	749	740
Other current liabilities	19	3.176.049	2.908.413
		<u>9.749.087</u>	<u>8.633.811</u>
Liabilities		<u>52.315.381</u>	<u>51.527.798</u>
Total equity and liabilities		<u><u>94.277.537</u></u>	<u><u>88.106.625</u></u>

Consolidated Statement of Changes in Equity 2022

	Share Capital	Statutory reserves	Revaluation reserves	Retained earnings	Total Equity
Opening balance at January 1st 2021	9.559.063	2.483.798	41.036	15.175.456	27.259.353
New share capital	9.000.000	0	0	0	9.000.000
Depreciation of revaluation	0	0	(1.324)	1.324	0
Translation differences	0	0	0	(1.416)	(1.416)
Comprehensive income	0	0	0	320.890	320.890
Balance at December 31st 2021	18.559.063	2.483.798	39.712	15.496.253	36.578.827
Opening balance at January 1st 2022	18.559.063	2.483.798	39.712	15.496.253	36.578.827
New share capital	6.000.000	0	0	0	6.000.000
Depreciation of revaluation	0	0	(1.324)	1.324	0
Translation difference	0	0	0	702	702
Comprehensive income	0	0	0	(617.373)	(617.373)
Balance at December 31st 2022	24.559.063	2.483.798	38.389	14.880.906	41.962.156

No dividends were paid to shareholders for the year. Share capital has been fully paid. See note 16 for further information.

Consolidated Statement of Cash Flows 2022

	Notes	Consolidation	
		2022	2021
Cash flows from operating activities			
Operating gain (loss)		1.233.358	(4.721.254)
Depreciation and amortization	9,10,11	3.931.571	3.910.854
Accounting provision of current assets	14,15	19.007	(40.220)
Gain on disposal of assets		(3.973)	(11.387)
Operating cash flow before changes in operating assets and liabilities		5.179.963	(862.007)
Changes in inventories		(173.200)	(179.186)
Changes in operating assets		(631.154)	1.848.079
Changes in operating liabilities		1.946.719	719.528
Cash generated from operations		6.322.328	1.526.414
Interest income received		382.591	3.214.018
Interest expenses paid		(1.608.479)	(1.040.096)
Income taxes paid		(346)	(3.550)
Net cash generated from operating activities		5.096.094	3.696.786
Investing activities			
Acquisition of property, plant and equipment	9	(15.087.512)	(5.974.158)
Sale of property, plant and equipment		14.809	86.092
Acquisition of intangible assets	10	(98.351)	(101.475)
Acquisition of shares in other companies		(5.000)	0
Instalments on bonds	13	42.270	41.505
Long term claim Joint Finance contract, change	13	487.950	(571.335)
Investing activities		(14.645.832)	(6.519.372)
Financing activities			
New long-term borrowing	17	0	183.024
Repayment of borrowings	17	(1.365.184)	(2.004.869)
Instalments of leases	11	(94.506)	(90.585)
Current liabilities, finance of construction plan, change	19	(269.195)	1.289.309
New share capital	16	6.000.000	9.000.000
Financing activities		4.271.116	8.376.879
Net change in cash and cash equivalents		(5.278.623)	5.554.293
Cash and cash equivalents at the beginning of the year		14.682.766	9.372.336
Effect of foreign exchange rates		90.721	(243.863)
Cash and cash equivalents at the end of the year	15	9.494.864	14.682.766
Other information			
New long-term borrowing	17	14.136.409	6.311.400
Payment of long-term loans with new long-term loans	17	(14.136.409)	(6.311.400)
		0	0

Notes

1. General information

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

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 Innanlandsflugvellir ehf., Fríhöfnin ehf., Tern Systems ehf., Tern Branch Hungary and Suluk ApS in Greenland.

2. The fundamental accounting principles

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 2022, new and revised and additional requirements in the Annual Accounts Act. The Consolidated Financial Statements are prepared on the basis of cost, except certain fixed assets are valued according to the revaluation method. The Condensed Consolidated Financial Statements are presented in Icelandic krona (ISK), which is the functional currency of the Consolidation. All amounts are in ISK thousands, unless stated otherwise.

No new accounting standards took place in year 2022. The Consolidation implemented few changes in older accounting standards, but those changes does not have significant impact on the Consolidations financial statements.

3. Critical accounting judgements and key sources of estimation uncertainty

In preparing of the Consolidated Financial Statements, managers must, in accordance with International Financial Reporting Standards, make decisions, assess and draw conclusions that affect assets and liabilities on 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. Actual value may differ from management's estimates. Accounting estimate consists of an assessment of the life of assets and allowance for doubtful accounts of the trade receivables and inventories, see note no. 9, 10, 14 and 15.

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.

4. Revenues

The consolidated composition of revenues, is specified as follows

	2022	2021
Revenue from sales	12.246.723	5.138.921
Revenue from services	17.950.760	11.818.586
Revenue from contracts	2.015.200	2.029.100
Revenue from long-term assets	4.292.813	1.856.281
	36.505.496	20.842.888

Revenue from long term assets consist of revenues of real estates, land and equipment. Within revenues from long term assets are rental revenues that fall under IFRS 16 Leases. Other revenues above are within IFRS 15 Revenues from contracts with customers. Further description of revenues and timing of the consolidation's revenues can be found in Note 28.

Revenue from the contracts is due to an agreement with the Ministry of Infrastructure for the operation of airports and air navigation services at domestic airports. Revenue in 2022 amounted to ISK 2.015 million. In 2021 the revenue amounted ISK 2.029 million, of which the Ministry's additional contribution was ISK 57 million due to a fall in revenue that can be attributed to the covid epidemic.

Notes

5. Salaries and related expenses

	2022	2021
Salaries	15.219.117	12.001.292
Contribution to defined contribution plans	2.345.826	1.916.160
Payroll taxes	1.102.900	840.235
Salary-related expenses	280.457	221.756
Additional contribution to pension fund and changes in vacation obligation	379.303	146.644
Capitalized employment expenses	(770.617)	(689.639)
Other employee expenses	837.708	443.158
	<u>19.394.692</u>	<u>14.879.606</u>
 Average number of employees	 1.247	 1.022

Total salaries payments and the counter-contribution to pension funds for the CEO of Isavia ohf. for the year 2022 amounted to ISK 55 million, compared to ISK 42 million in 2021. In 2022, total payments and counter-contributions to pension funds to the four Directors of the consolidated group, the Directors of subsidiaries and Directors of the parent company amounted to ISK 339 million, compared to ISK 309 million the year before.

6. Fees to auditors

	2022		2021	
	Audit	Other service	Audit	Other service
The Icelandic National Audit office	43.013	0	42.636	0
	<u>43.013</u>	<u>0</u>	<u>42.636</u>	<u>0</u>

Other services include the cost of accounting, tax service and assistance on tax return. In year 2021 and 2022, this service was purchased by a third party that is independent of the company's audit.

7. Financial income and expenses

Financial income

	2022	2021
Interest on bank deposits	310.725	56.331
Interest revenue on investments held to maturity	7.381	6.326
Other interest revenue	68.788	2.856.845
	<u>386.894</u>	<u>2.919.502</u>

Other interest income year 2021 included interest income in the amount of ISK 2.760 million, which was due to the processing of VAT in previous years by the Tax, following the ruling of the Internal Revenue Board no. 181/2020 from December 2020.

Financial expenses

	2022	2021
Interest expense and indexation	(1.396.017)	(1.237.647)
Debt collection fee	(165.123)	(71.801)
	<u>(1.561.140)</u>	<u>(1.309.448)</u>

Net exchange rate differences

	2022	2021
Net exchange rate differences	(867.962)	1.955.093
	<u>(867.962)</u>	<u>1.955.093</u>

Notes

8. Income tax

Income tax has been calculated and recorded in the Financial Statements, the amount charged in the Income Statement is ISK 192 million. Income tax payable in the year 2023 is ISK about 749 thousand. In year 2021 income tax charged in the Income Statement was ISK 1.477 million and income tax payable in year 2022 was ISK 740 thousand.

The effective tax rate is specified as follows:

	2022		2021	
	Amount	%	Amount	%
Profit before taxes	(808.850)		(1.156.107)	
Tax rate	(161.770)	20,0%	(231.221)	20,0%
Other changes	(29.707)	3,7%	(12.452)	1,1%
Other changes due to taxable loss	0	0,0%	(1.233.323)	106,7%
Income tax according to Income statement	(191.477)	23,7%	(1.476.997)	127,8%

Other changes due to taxable loss in year 2021 are because of recognition of income tax asset.

9. Property, plant and equipment

	Buildings and artwork	Aprons and car parks	Control systems	Other assets	Total
Cost					
Balance at January 1st 2021	38.730.021	19.322.307	2.999.616	17.240.790	78.292.734
Corrected between categories	0	1.286.898	0	(1.294.937)	(8.039)
Additions	2.653.319	2.253.060	1.288	1.066.491	5.974.158
Disposals	(1.173.721)	0	(255.973)	(766.734)	(2.196.428)
Sold	0	0	0	(187.012)	(187.012)
Balance at January 1st 2022	40.209.619	22.862.265	2.744.931	16.058.597	81.875.413
Corrected between categories	0	(1.082.652)	656.046	955.986	529.380
Additions	7.434.845	4.554.959	68.481	3.029.227	15.087.512
Disposals	(19.794)	0	(156.148)	(1.210.148)	(1.386.089)
Sold	0	0	0	(35.711)	(35.711)
Balance at December 31st 2022	47.624.670	26.334.572	3.313.311	18.797.952	96.070.505
Accumulated depreciation					
Balance at January 1st 2021	9.725.372	3.251.194	1.206.766	6.915.445	21.098.776
Corrected between categories	0	1.098.414	0	(1.098.414)	0
Charge for the year	1.030.260	782.363	313.767	1.322.104	3.448.494
Disposals	(1.173.721)	0	(255.973)	(766.734)	(2.196.428)
Sold	0	0	0	(112.307)	(112.307)
Balance at January 1st 2022	9.581.911	5.131.971	1.264.559	6.260.093	22.238.535
Corrected between categories	0	(1.082.652)	656.046	955.986	529.380
Charge for the year	1.093.674	805.256	284.310	1.225.949	3.409.189
Disposals	(19.794)	0	(156.148)	(1.210.148)	(1.386.089)
Sold	0	0	0	(24.828)	(24.828)
Balance at December 31st 2022	10.655.791	4.854.576	2.048.768	7.207.054	24.766.188
Book value					
Book value beginning of year 2022	30.627.708	17.730.294	1.480.372	9.798.504	59.636.877
Book value at year-end 2022	36.968.879	21.479.996	1.264.543	11.590.898	71.304.316

Estimated useful lives of fixed assets are as follows:

Buildings and artwork	0-100 years
Aprons and car parks	5-50 years
Fixtures and machinery	3-20 years
Other assets	3-70 years

Notes

9. Property, plant and equipment (continued)

Construction is underway at Leif Eiriksson Airport due to expansion of the terminal and changes in spaces as well as construction in the airport area. In the year 2022, construction and other investments for around ISK 14.637 million were capitalized by the parent company. Other investments in subsidiaries of Isavia ohf. amounted to 450,5 million ISK during the year. In the future, there is ongoing construction due to the expansion of the terminal and changes in spaces, as well as ongoing construction in the airport area. On December 31st 2022, there were non-financial obligations due to contracts that belong to the projects ahead, and the obligation amounts to ISK 10.011 million at the parent company.

Depreciation:	2022	2021
Depreciation of property, plant and equipment see here above	3.409.189	3.448.494
Depreciation of intangible assets according to note 10	419.538	365.500
Depreciation of right-of-use assets according to note 11	102.844	96.860
	<u>3.931.571</u>	<u>3.910.854</u>
Information about the revalued properties in year-end:		
	31.12.2022	31.12.2021
Revalued book value	97.723	100.719
Impact of the special revaluation	(46.812)	(48.426)
Book value without impact of revaluation	<u>50.912</u>	<u>52.293</u>

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

	2022		2021	
	Assessment value	Insurance value	Assessment value	Insurance value
Buildings and sites	35.168.677	65.210.880	31.147.441	55.813.003
Machinery and equipment, asset insurances		28.595.986		28.475.631
Other insurances		3.698.592		1.121.503
Halt insurance		8.005.102		11.623.430

Isavia ohf. and subsidiaries have common insurances.

10. Intangible assets and amortization

Consolidation	Usage agreement on facilities	Usage agreement on runways	Software and development cost	Total
Cost				
Balance at January 1st 2021	477.035	5.706.000	1.342.739	7.525.774
Corrected between categories	0	0	8.039	8.039
Additions	0	0	101.475	101.475
Balance at January 1st 2022	477.035	5.706.000	1.452.253	7.635.288
Additions	0	0	98.351	98.351
Disposals	0	0	(285.015)	(285.015)
Balance at December 31st 2022	477.035	5.706.000	1.265.589	7.448.624
Amortization				
Balance at January 1st 2021	190.853	2.282.862	440.475	2.914.189
Charge for the year	15.899	190.174	159.427	365.500
Balance at January 1st 2022	206.752	2.473.036	599.901	3.279.689
Charge for the year	15.899	190.174	213.464	419.538
Disposals	0	0	(285.015)	(285.015)
Balance at December 31st 2022	222.651	2.663.211	528.350	3.414.212
Book value				
Book value at beginning of year 2022	270.283	3.232.964	852.352	4.355.599
Book value at year-end 2022	254.384	3.042.789	737.238	4.034.412
Depreciation rate	3,3%	3,3%	5-33%	

An evaluation of the development costs at the end of the year showed that part of the development costs had to be written off due to an impairment.

Notes

10. Intangible assets and amortization (continued)

According to an agreement between Keflavik International Airport ohf., now Isavia ohf. and The Icelandic Defence Agency, now the Icelandic Coast Guard, signed on April 22nd, 2009, the 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.

11. Leases

The group leases real estate and plots of land for its operations that fall under the accounting standard IFRS 16 Leases. The contractual rental period for real estate is 5 to 6 years plus one indefinite contract. The group's largest lease agreement, with the exception of an open-ended agreement, is for office space that expires after 3 years from the reporting date. The company has a pre-lease right for 5 years after the end of the contract period. The open-ended real estate contract has a 6-month notice period on both sides. The contractual lease period for land is between 44 and 48 years.

The following tables show, among other things, an analysis of the underlying asset classes of contractual lease payments where the company is the lessee.

Right-of-use assets	Property and land
Balance at January 1st 2021	353.874
Adjustments for indexed leases	17.510
New or renewed leases	86.689
Depreciation	<u>(96.860)</u>
Balance at December 31st 2021	361.213
Adjustments for indexed leases	30.672
Depreciation	<u>(102.844)</u>
Balance at December 31st 2022	<u>289.041</u>

Amounts recognised in income statement	2022	2021
Depreciation expense from right-of-use assets	102.844	96.860
Interest expense on lease liabilities	15.644	16.344
Total amount recognised in income statement	<u>118.488</u>	<u>113.204</u>

Payment of leases for the year	114.767	107.987
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Lease liabilities	2022	2021
Lease liabilities, long-term	194.284	276.036
Lease liabilities, current maturities next 12 months among current liabilities	108.594	94.606
	<u>302.878</u>	<u>370.642</u>

Lease liabilities	31.12.2022	31.12.2021
Maturity analysis, undiscounted lease payments		
Not later than 1 year	120.004	110.168
Later than 1 year and not later than 5 years	164.203	258.512
Later than 5 year	85.270	79.763
	<u>369.476</u>	<u>448.443</u>

Notes

12. The Consolidation

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

	Ownership	Nominal amount	Principal activity
Shares in subsidiaries are as follows:			
Subsidiaries of Isavia ohf.			
Fríhöfnin ehf., Keflavik Airport	100,00%	50.000	Retail and commerce
Isavia ANS ehf., Reykjavik Airport	100,00%	310.500	Air traffic control services
Isavia Innanlandsflugvöllir ehf., Reykjavik Airport	100,00%	52.350	Domestic airport operations
Subsidiaries of Isavia ANS ehf.			
Suluk ApS, Greenland	100,00%	1.999	Services of air traffic controllers
Tern Systems ehf., Kopavogur	100,00%	80.000	Software and consulting
Subsidiary of Tern Systems ehf.			
Tern Branch Hungary, Hungary	100,00%	16.877	Software and consulting

13. Bonds and other long term assets

	31.12.2022	31.12.2021
Bonds		
Bond loan	46.693	82.257
Current maturities	(10.914)	(39.552)
	35.779	42.705
Long term asset		
	31.12.2022	31.12.2021
Long-term assets - Joint Finance contract	1.951.802	2.439.752
Current maturities	(487.950)	(487.950)
	1.463.851	1.951.802
Total amount of bonds and other long term assets	1.499.630	1.994.507
Bonds and long-term assets instalments are specified as follows:		
	31.12.2022	31.12.2021
Year 2022	0	527.503
Year 2023	498.865	497.932
Year 2024	499.356	498.382
Year 2025	499.869	498.851
Year 2026	500.405	499.342
	1.998.494	2.522.009

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

14. Inventories

	31.12.2022	31.12.2021
Goods for resale	555.181	384.991
Goods in transit	30.499	27.489
Supplies	0	10.152
Allowance for old and obsolete inventory	(3.863)	(6.126)
	581.817	416.507
Changes in allowance for old and obsolete inventory:		
At the beginning of the year	(6.126)	(58.835)
Reversed allowance for old and obsolete inventory	(18.945)	36.759
Inventories written off	21.208	15.950
At year-end	(3.863)	(6.126)
Insurance value of inventories	783.883	750.301

No inventories have been pledged at year-end.

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

Notes

15. Other financial assets

Accounts receivables

	31.12.2022	31.12.2021
Domestic receivables	4.278.486	3.263.762
Foreign receivables	607.138	400.766
Allowances for doubtful accounts	(2.276.014)	(2.254.744)
Receivables Joint Finance contract	803.469	1.762.726
	<u>3.413.079</u>	<u>3.172.511</u>

Aging and allowance for doubtful accounts

Changes in the allowance for doubtful accounts:

	31.12.2022	31.12.2021
At the beginning of the year	(2.254.744)	(2.355.974)
Impairment loss recognized on receivables	(23.821)	76.301
Amounts written off as uncollectable	2.551	24.929
At year-end	<u>(2.276.014)</u>	<u>(2.254.744)</u>

Allowance has been made for doubtful accounts. This allowance is based on management's estimates, previous year's experience and economic outlook at the reporting date.

Valuation of allowance for doubtful accounts in the year end 2022 in accordance with IFRS 9 is following:

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 28, 2019, Isavia exercised its authority to ground an aircraft operated by WOW air due to unpaid user fees for the operation of the airline at Keflavik Airport. The owner of the aircraft filed a lawsuit before the Reykjanes District Court, which overturned the grounding of the aircraft, despite clear provisions of law authorizing the suspension in the company's opinion. Due to this ruling of the Reykjanes District Court, it was considered appropriate to write down a fee claim in the amount of ISK 2.134,8 million in the group's books, despite the group's opinion that this was a wrong ruling. Isavia sued the aircraft owner and the Treasury for damages caused by the installation. The District Court's judgment of December 22nd 2021 (Case E-1085/2020) agreed to all of Isavia's claims in addition to the payment of legal costs. The case has been appealed by the defendant.

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

	31.12.2022			
	Expected loss	Gross amount	Allowance	Book value
Receivables not yet due	0,2%	2.154.555	5.045	2.149.510
1-90 days	9,5%	327.208	31.062	296.145
91-180 days	10,0%	88.954	8.901	80.053
181-270 days	30,0%	28.455	8.537	19.919
> 271 days	97,2%	2.286.452	2.222.469	63.983
Total		<u>4.885.624</u>	<u>2.276.014</u>	<u>2.609.610</u>
	31.12.2021			
	Expected loss	Gross amount	Allowance	Book value
Receivables not yet due	0,7%	1.048.828	7.360	1.041.469
1-90 days	9,4%	236.512	22.338	214.174
91-180 days	9,6%	35.794	3.429	32.365
181-270 days	15,6%	9.516	1.489	8.027
> 271 days	95,1%	2.333.878	2.220.128	113.750
Total		<u>3.664.528</u>	<u>2.254.744</u>	<u>1.409.784</u>

Notes

15. Other financial assets (continued)

Other receivables

	31.12.2022	31.12.2021
Value added tax	879.485	451.418
Prepaid expenses	143.183	126.632
Capital income tax	69.717	616.933
Prepaid salaries	34.442	38.409
Other receivables	658.904	547.660
	<u>1.785.732</u>	<u>1.781.052</u>

Cash and cash equivalents

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

	31.12.2022	31.12.2021
Bank balances in ISK	8.172.569	13.189.186
Bank balances in foreign currencies	1.318.940	1.486.621
Cash in ISK	3.355	6.959
	<u>9.494.864</u>	<u>14.682.766</u>

16. Equity

Share capital is specified as follows:

	Shares	Ratio	Amount
Total share capital at year-end	24.559.063	100,0%	24.559.063
	<u>24.559.063</u>	<u>100,0%</u>	<u>24.559.063</u>

Each share of one ISK carries one vote. The Minister of Finance carries the voting rights on behalf of the Icelandic Treasury. Increase in share capitalization was ISK 6.000 million. All shares have been paid in full.

Statutory reserves

Funds are allocated to a lawfully required reserve fund in accordance with Icelandic laws on limited companies. The payment of a lawfully required reserve fund to shareholders in the form of dividends is not permitted. According to laws on limited companies, funds must be allocated to the reserve fund until it has reached 25% of the share capital.

Revaluation reserves

Upon the merger of Flugfjarskipti ehf. and Isavia ohf. the properties of the aforementioned company were revalued as the market price of that company's real estate was considered to be significantly higher than the book value. The revalued price is based on the estimated sales price confirmed by the appraisers. The valuation change is recognized in a special revaluation account among equity and on income tax liability.

17. Long-term borrowings

	Loans from credit institutions	
	31.12.2022	31.12.2021
Liabilities in EUR	38.743.295	38.810.565
Liabilities in ISK	5.387.370	5.636.469
	<u>44.130.665</u>	<u>44.447.034</u>
Current portion of long-term liabilities	(1.758.655)	(1.829.083)
Non-current liabilities at year-end	<u>42.372.010</u>	<u>42.617.951</u>

Change in liabilities for the year is following:

	31.12.2022	31.12.2021
Liabilities at beginning of the year	44.447.034	47.746.412
New long-term borrowings in the year	14.136.409	6.494.424
Full repayment of loans with new loans	(14.136.409)	(6.311.400)
Interest addition on principal during the year	0	712.503
Instalments for the year	(1.365.184)	(2.004.869)
Exchange rate difference and indexation	1.048.814	(2.190.035)
Liabilities at the end of the year	<u>44.130.665</u>	<u>44.447.034</u>

Notes

17. Long-term borrowings (continued)

Instalments of non-current liabilities are specified as follows:

	Loans from credit institutions	
	31.12.2022	31.12.2021
Instalments in 2023 / 2022	1.758.655	1.829.083
Instalments in 2024 / 2023	2.054.502	2.118.586
Instalments in 2025 / 2024	2.448.224	2.406.661
Instalments in 2026 / 2025	7.464.648	2.790.083
Instalments in 2027 / 2026	2.203.482	14.174.447
Instalments later	28.201.154	21.128.175
	<u>44.130.665</u>	<u>44.447.034</u>

Loans amounting to ISK 43.257 are subject to terms related to the equity ratio. 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.

18. Deferred tax liability (deferred tax assets)

	31.12.2022	31.12.2021
Balance at beginning of the year	(1.178.092)	299.665
Calculated income tax for the year	(191.477)	(1.476.997)
Income tax payable for the next year	(749)	(740)
Translation exchange difference	(463)	(20)
Balance at the end of the year	<u>(1.370.781)</u>	<u>(1.178.092)</u>

Deferred tax balances (deferred tax assets) consist of the following account balances

	31.12.2022	31.12.2021
Property, plant and equipment	2.112.270	2.345.065
Current assets	(444.607)	(430.559)
Other items	13.126	932
Exchange differences	14.895	7.296
Effect of carry forward income tax loss	(3.066.466)	(3.100.825)
	<u>(1.370.781)</u>	<u>(1.178.092)</u>

The carry-over of the tax loss of the consolidated group will, along with other items, form an income tax claim (deferred tax assets) at the end of the year and has been entered into the accounts of the company.

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

	31.12.2022	31.12.2021
Available to the year 2030	10.596.095	11.165.417
Available to the year 2031	4.338.709	4.338.709
Available to the year 2032	397.524	0
	<u>15.332.328</u>	<u>15.504.126</u>

19. Other financial liabilities

Accounts payable

	31.12.2022	31.12.2021
Domestic accounts payable	2.313.296	1.623.488
Domestic accounts payable - due to construction plan	1.662.307	1.931.502
Foreign accounts payable	729.437	245.979
	<u>4.705.041</u>	<u>3.800.969</u>

Domestic accounts payable due to the construction plan belong to Isavia Innanlandsflugvöllir ehf. and are because of the service agreement with the Ministry of Infrastructure, a part on construction. Payments for the year 2022, construction part, have already been received and therefore form this debt as these payments have not been fully disposed of. Cash and cash equivalents include credit due to these payments.

Current maturities of long-term liabilities

	31.12.2022	31.12.2021
Loans from credit institutions	1.758.655	1.829.083

Notes

19. Other financial liabilities (continued)

Other current liabilities

	31.12.2022	31.12.2021
Value added tax, payable	30.081	38.369
Accrued additional contribution to pension fund	16.858	158.951
Salaries and related expenses payable	808.496	689.498
Accrued holiday commitment	1.905.800	1.485.646
Accrued interest, payable	169.444	307.136
Other liabilities	72.116	52.701
Deferred revenue	173.254	172.749
Unfinished construction contract	0	3.363
	<u>3.176.049</u>	<u>2.908.413</u>

20. Financial risk

Financial instruments

The consolidated financial assets and liabilities are specified into following types of financial instruments and are all recorded at amortized cost:

Financial assets	31.12.2022	31.12.2021
Cash and cash equivalents	9.494.864	14.682.766
Financial assets that are intended to hold to maturity	1.998.494	2.522.009
Loans and receivables	4.951.468	4.171.589
	<u>16.444.826</u>	<u>21.376.364</u>
Financial liabilities	31.12.2022	31.12.2021
Other financial liabilities	51.402.147	50.583.704
	<u>51.402.147</u>	<u>50.583.704</u>

Loans and advances and other financial liabilities are measured at amortized cost with effective interest method less impairment.

Risk management

The Consolidation has adopted a comprehensive risk policy and there is active risk management which has the role of assessing and managing the risk factors that the Consolidation has. The risks that are under active control are market risk, counterparty risk and liquidity risk. In addition, other risks related to operations, reputation, management and other factors have been mapped and assessed on the basis of severity on the one hand and probably on the other. The Risk Committee of the Consolidation regularly meets with issues related to risk management.

Interest rate risk

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

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

Sensitivity analysis

The analysis below shows the effect of a 50 and 100 percentage point increase on net interest-bearing assets and liabilities on earnings and equity at the balance sheet date. The sensitivity analysis covers the interest-bearing assets and liabilities that carry variable interest rates and assumes that all other variables other than those considered here are fixed. The sensitivity analysis takes into account tax effects and therefore reflects the effects that come into the 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:

	31.12.2022		31.12.2021	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on profit or loss and other equity	(63.202)	(126.405)	(44.603)	(89.206)

Notes

20. Financial risk (continued)

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

Currency	Year-end rate	
	2022	2021
EUR	151,50	147,60
GBP	170,81	175,73
JPY	1,077	1,133
CHF	153,85	142,83
DKK	20,37	19,85
NOK	14,41	14,77
SEK	13,62	14,39
USD	142,04	130,38
CAD	104,92	102,42
HUF	0,38	0,40

Foreign currency risk 31.12.2022

	Assets	Liabilities	Net balance
EUR	1.635.984	39.355.680	(37.719.696)
GBP	72.537	15.270	57.267
JPY	592	0	592
CHF	5.579	14.203	(8.624)
DKK	78.571	24.216	54.356
NOK	459	634	(175)
SEK	2.863	948	1.915
USD	118.662	74.645	44.017
CAD	260	0	260
HUF	13.701	3.952	9.749

Foreign currency risk 31.12.2021

	Assets	Liabilities	Net balance
EUR	1.493.122	38.969.126	(37.476.004)
GBP	204.410	1.096	203.314
JPY	568	0	568
CHF	3.317	16.580	(13.263)
DKK	81.819	20.098	61.721
NOK	2.429	568	1.861
SEK	6.479	21.960	(15.481)
USD	111.361	40.651	70.710
CAD	751	0	751
HUF	8.591	2.559	6.032

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 based on the balance of assets and liabilities in the relevant currency at the reporting date. The table above details monetary assets and liabilities that are denominated in foreign currency and the sensitivity analysis apply to. The foreign currency assets and liabilities in the sensitivity analysis are mainly foreign currency borrowings and foreign currency bank balances and trade receivables. The analysis assumes that all other variables than the relevant foreign currency rate are held constant. The sensitivity analysis covers the currencies that include the most exchange rate risk. The sensitivity analysis does take into account tax effects and therefore reflects the impact on the income statement and equity. The effect on profit or loss and equity are the same as the change in valuation of underlying financial instruments in foreign currency is not in any case recognized directly in equity. Change of the ISK by 5% and 10% against the currencies below would have had the same effect but in the opposite direction.

Notes

20. Financial risk (continued)

Effects on profit or loss and equity	31.12.2022		31.12.2021	
	5%	10%	5%	10%
EUR	(1.508.788)	(3.017.576)	(1.499.040)	(2.998.080)
GBP	2.291	4.581	8.133	16.265
JPY	24	47	23	45
CHF	(345)	(690)	(531)	(1.061)
DKK	2.174	4.348	2.469	4.938
NOK	(7)	(14)	74	149
SEK	77	153	(619)	(1.239)
USD	1.761	3.521	2.828	5.657
CAD	10	21	30	60
HUF	390	780	241	483

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss for the Consolidation. The Consolidation actively monitors the changes to its credit risk. A more detailed description of the Consolidation's assessment of expected loan losses due to financial assets can be found in Notes 28 (accounting policies for impairment of financial assets) and 15 (allowance for doubtful accounts). The Consolidation has no write-down on bond assets that are low amounts and the estimate of the management is that the write-down would be insignificant.

	31.12.2022	31.12.2021
Bonds and other long-term assets	1.998.494	2.522.009
Accounts receivables	3.412.977	3.310.396
Other receivables	1.538.491	861.192
Cash and cash equivalents	9.494.864	14.682.766
	<u>16.444.827</u>	<u>21.376.364</u>

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

Capital management

The Group's treasury management monitors the capital risk management in consultation with the owners, the board and management. The Group manages its financing in accordance with its ownership policy. Great emphasis is placed on long-term perspectives on the structure and operation of the group. It is also emphasized that the group's companies, especially when they are in competitive operations, return acceptable results and ensure the maintenance of income-generating assets. This means, among other things, that the Treasury receives a normal return on equity in accordance with the risk of operations.

Liquidity risk management

Liquidity risk is the risk that the Consolidation has difficulties to meet its financial commitments in the near future. On a regular basis the Consolidation 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 31.12.2022				
Non-interest bearing	7.271.482	0	0	7.271.482
Floating interest rates	3.793.315	9.479.118	12.019.798	25.292.230
Fixed interest rates	579.589	4.691.738	13.567.107	18.838.434
	<u>11.644.386</u>	<u>14.170.856</u>	<u>25.586.905</u>	<u>51.402.147</u>
Assets 31.12.2022				
Non-interest bearing	5.489.317	1.463.851	0	6.953.169
Floating interest rates	9.455.880	35.779	0	9.491.658
	<u>14.945.197</u>	<u>1.499.630</u>	<u>0</u>	<u>16.444.827</u>
Net balance 31.12.2022	<u>3.300.811</u>	<u>(12.671.226)</u>	<u>(25.586.905)</u>	<u>(34.957.320)</u>

Notes

20. Financial risk (continued)

	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2021				
Non-interest bearing	6.136.670	0	0	6.136.670
Floating interest rates	1.555.463	17.609.742	6.706.833	25.872.037
Fixed interest rates	273.620	3.880.035	14.421.342	18.574.997
	7.965.753	21.489.776	21.128.175	50.583.704
Assets 31.12.2021				
Non-interest bearing	4.703.218	1.951.802	0	6.655.020
Floating interest rates	14.678.639	42.705	0	14.721.344
	19.381.857	1.994.507	0	21.376.364
Net balance 31.12.2021	11.416.104	(19.495.269)	(21.128.175)	(29.207.340)

21. Other issues

Revenues of International Air Navigation Services

On the basis of a service agreement with the Ministry of the Interior, the Consolidation offers air navigation services within the Icelandic, Greenland, and Faroese airspaces in accordance with the Icelandic Government's commitments in international agreements. For this obligation, there is a so-called Joint Financing Agreement which was signed in 1956 between 13 member countries of ICAO, The International Civil Aviation Organization. These member countries are now 25.

Court Proceedings

In 2015, Drífa ehf. started a lawsuit against Isavia ohf. where compensation was claimed for alleged damage in connection with the implementation of pre-selection for the rental of retail space in the duty-free area of Leif Eiríksson Air Terminal. The compensation claimed was ISK 1,5 billion. By rule of the district court on 13 October 2021, Isavia was acquitted of Drífa's claims. Drífa has appealed the case to the National Court. Isavia has counterclaimed Drífa ehf. for legal costs outlay in the district court.

The bankruptcy estate of Air Berlin has sued the company due to the suspension of its aircraft in 2017. The amount of the claim is €795 thousand (ISK 120 million ISK). The bankruptcy estate's claim was accepted in a lower court in Berlin in December 2021. The case was appealed to the higher court in Berlin, which confirmed the decision of the lower court on February 22, 2023, further appeals are under consideration. The bankruptcy estate suspended the payments of two German airlines to Isavia for this amount. Subsequently, Isavia suspended the aircraft to guarantee the payment of these fees in this country, and a case is now pending before the Reykjavík district court to confirm the guarantee payment.

Note no. 15 contains information on a lawsuit where Isavia ohf. sued the owner of a Wow air aircraft and the Treasury.

Disputes regarding the seniority of air traffic controllers are being prosecuted in the district court, and in addition, there are several court cases in progress that the company believes are unlikely to succeed or are due to insignificant interests.

22. Other obligations

Operating license

Isavia ohf. and its subsidiaries have an indefinite operating license for the operation of air navigation, airports and landing places and are subject to conditions resulting from them as they are at any given time.

The Consolidation is obliged to respect international commitments made by the Government in Iceland on the basis of international agreements relating to the Consolidation's operations.

Isavia ANS ehf. has an operating license without a time limit for the operational management of air traffic and air navigation services in accordance with Regulation no. 720/2019, and which remains valid as long as its conditions are met. The company is also the holder of a certificate as an air traffic controller training company and is a declared operator for non-profit activities (NCC) and special operations (SPO) in accordance with Regulation no. 237/2014 with subsequent amendments.

Notes

22. Other obligations (continued)

Service agreements

Isavia ohf. has service contracts with the Ministry of Infrastructure for five years, starting in 2019, for the operation of air navigation and airport services, and the contracts expires at the end of 2023. There are four contracts in question, i.e. on the operation of air navigation, on the operation of domestic airports and the development of domestic airports and on the operation of Keflavík Airport. At the same time, the company must respect the international obligations that the government in this country has entered into on the basis of international agreements, as well as maintaining and developing domestic airports in accordance with the decisions of the government at any given time.

With the division of Isavia ohf. in 2020, the implementation of the contract for air navigation services was delegated by contract to Isavia ANS ehf. The implementation of contracts for the operation and development of domestic airports was delegated by contract to Isavia Innanlandsflugvöllir ehf. The operation of Keflavík Airport was unchanged by the parent company. Upon the delegation of the above agreements, the parent company, in an agreement with them, guaranteed the financing of the activities of Isavia ANS ehf. and Isavia Innanlandsflugvöllir ehf., including access to liquid assets, in order not to disrupt the companies' operating licenses during the change. The companies currently have indefinite work permits from the Icelandic Transport Authority for this operation but are subject to their conditions as they are at any given time.

Payments for services and construction at domestic airports are determined according to the aforementioned service contracts for one year at a time. They stipulate that payments must take into account price changes, but in recent years that provision has not been respected and payments are determined in each year's budget.

The service contract for domestic airports is divided into two parts. On the one hand, payments to the company for the daily operation of domestic airports cf. Note 4. On the other hand, there are payments to the company for projects related to maintenance and new construction at domestic airports cf. Note 19. There are no property transactions with the company due to projects related to maintenance or new constructions, as such constructions are not the property of the company but of the state, but the company is only entrusted with managing these projects.

Projects for maintenance and new construction at domestic airports are according to the applicable transport plan at any given time. The biggest project is at Akureyri Airport, but it is expected to be carried out for around 1 billion ISK. Other construction projects at scheduled airports amount to around 500 million ISK. A review of the 15 year transport plan for the years 2024 to 2038 is currently underway, and both maintenance projects and new constructions will be included. At the three international airports there are deviations due to approach lights and they will be financed in the next transport plan.

Insurance

The insurance cover of Isavia ohf. applies to the consolidated group as a whole.

In addition to obligatory insurance and special liability insurance for real properties and equipment, the company guarantees the operations of air traffic control and airports (in accordance with the terms of the insurance) for up to USD 1.5 billion.

The directors and officers liability is ISK 300 million.

The Company purchases insurance for employees in accordance with the terms of the collective bargaining agreement, except for the air traffic controller's license which the Company runs at its own risk.

23. Future prospects

The group's turnaround following the pandemic exceeded the company's plans for 2022, and it can be considered that full recovery has been achieved at Keflavík Airport by the middle of 2022. The company's plans for 2023 assume continued growth in the group's income and performance alongside increased activity in air traffic. It is therefore the assessment of the board of directors and the CEO that the group's going concern is strong and that the company is well equipped to deal with the future air traffic and increase in passengers at the group's airports, together with the development of the infrastructure planned at Keflavík Airport in the coming years.

24. Events after the reporting period

There are no subsequent events to be disclosed.

Notes

25. Related parties

Related parties are those parties which have direct or indirect influence of the Company or have the power to control its financial and operating policies. Related parties of the group include key executives, close family members of key executives, and companies in which key executives or close family members control or have significant influence. Parent companies and companies where the group controls or has a significant influence are also considered related parties. Isavia ohf. is a government owned and a partial exemption is provided from the disclosure requirements for government-related entities in the revised version of IAS 24. But the group's main transactions with public entities is an agreement with the state on the operation of domestic airports, which belongs to the subsidiary Isavia Innanlandsflugvöllir ehf. The segment report provides information on the operations of Isavia Innanlandsflugvöllir ehf.

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 are immaterial.

26. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on March 8th, 2023.

27. Consolidated ratios

From Statement of Comprehensive Income:	2022	2021
Profitability		
Earnings (loss) before interests, taxes, depreciation and amortisation (EBITDA)	5.164.929	(810.400)
a) Contribution margin on operation	14,15%	(3,89%)
b) Profit (loss) margin on operating revenue	(1,69%)	1,54%
c) Earning per share (EPS)	(0,03)	0,02
d) Return on equity	(1,57%)	1,01%
a) EBITDA/total revenue		b) Net income/total revenue
c) Earnings per share (EPS)		d) Net income/average equity
From Balance sheet:		
	31.12.2022	31.12.2021
Activity ratios		
e) Investment in inventories	0,02	0,02
f) Rate of return on assets	0,40	0,25
g) Inventory turnover	11,92	7,08
h) Receivables turnover	11,09	7,21
e) Inventory/revenues		g) Cost of goods sold/average inventory
f) Net income/average total assets		h) Revenues/average accounts receivables
Liquidity ratios		
i) Quick or acid-test ratio	1,56	2,34
j) Current ratio	1,62	2,38
k) Net Interest-bearing Debts/EBITDA	6,76	(37,19)
i) (Current assets - inventories)/average total assets		j) Current assets/current liabilities
Coverage ratios		
l) Equity ratio	44,51%	41,52%
m) Internal value of shares	1,71	1,97
l) Shareholders equity/total assets		m) Shareholders equity/capital stock

Notes

28. Summary of Significant Accounting Policies

Consolidation

The Consolidated Financial Statements include the Parent Company Financial Statements and the Financial Statements of the companies under its control (subsidiaries) at the reporting date. Control exists when the parent Company has legal right of decision over the investment, is at risk or has the right to receive variable advantage from the investment and with power of decision, can influence its proceeds from the investment.

The Consolidation is prepared in accordance with the acquisition price rule. When acquiring subsidiaries, assets and liabilities are measured at fair value at the acquisition date. If the purchase price is higher than the net asset after such an assessment, the difference is recognized as goodwill. The operating results of subsidiaries acquired or disposed during the year are included in the consolidated income statement from the effective date of acquisition or until the date of disposal, as applicable.

Among the objectives of the consolidated financial statements is to disclose only the Consolidation's external income, expenses, assets and liabilities, therefore transactions within it are eliminated in the preparation of the financial statements. If appropriate, adjustments are made to the subsidiaries financial statements to align them with the Consolidations accounting policies.

Risk management

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

Revenue recognition

Revenue recognition

The revenue recognition of the Consolidation reflects the consideration that the Consolidation expects to receive due to the sale of goods and services to the customer. The Consolidation records revenues when the control of the sold goods or services is transferred to the customer. In general, the Consolidation's invoices are made monthly as provided service for the relevant month, with the exception of the sale of the Duty Free Store that is recorded when the sale takes place.

Air navigation - Isavia ANS ehf.

The air navigation division handles air navigation services for domestic and international flights across large areas of the North Atlantic. The revenue of the division comes, e.g, from air navigation services to flight operators in North Atlantic on the basis of a Joint Finance agreement (international agreement), air navigation services on airspace and air navigation services at airports in Iceland.

Domestic airports - Isavia Innanlandsflugvöllir ehf.

The domestic airports system handles the operation and maintenance of all airports in Iceland apart from Keflavik airport. The largest part of revenue from domestic airports comes from a service agreement with the Ministry of Interior, but other revenues consist of user charge and leasing of buildings. All buildings at airports in Iceland besides Keflavik airport are under control of the Icelandic state.

Notes

28. Summary of Significant Accounting Policies (continued)

Keflavik airport - Isavia ohf.

The organisation of Keflavik Airport is divided into commerce and development on one hand and services and operations on the other. Commerce and development deals with airlines and routes, business and marketing, the operation and investment in infrastructure along with airport development and improvements in the airport. The services and operations part deals with security, aviation protection, passenger services and the operation of the airport tower.

Frihöfnin ehf. (Duty free store)

Revenue from Frihöfnin ehf. are mainly revenues from sales of goods, but other revenue of the Consolidation is for example advertising revenue.

Other subsidiaries

Revenue from other subsidiaries of Isavia ohf. are mainly revenues from sales of service and goods and from contracts and other various revenues.

Lease income

The consolidation is a lessor and is renting various assets of the consolidation. Every lease is classified as operating lease and the consolidation is not part of financing leases as lessor. Lease can be between companies within the consolidation or outside the consolidation to third party.

Lease income from operating leases is recognized on a straight-line basis over the term of the lease. Costs directly related to leases and management of operating leases are added to the book value of the leased asset and are then expensed on a straight-line basis over the lease term.

Lease of property are mostly at Leifur Eiríksson airport and lease of land and other property related to the airport. As the airport is at one real estate number there is no distinction between property for lease and property for own use.

Payment terms

The Group's general payment terms are a 30-day payment deadline. The Group does not have any unusual payment terms.

Recognition of expenses

Expenses incurred to generate income during the period are recognized as operating expenses. Fees incurred during the financial year but for subsequent financial years are recognized in the balance sheet as prepaid expenses. Expenses that relate to the financial year but are payable later are recognized as a liability as accrued expenses in the balance sheet.

Construction contracts

When the status of a contract can be reliably assessed, income and expenses are recognized based on the percentage of accrued costs in accordance with the provisions of the contract on the reporting date. Changes to the components of the contract, the claim for compensation and bonus payments are recognized to the extent that the amount can be estimated reliably and is likely to arrive.

When the status of a contract cannot be reliably estimated, revenue is recognized in proportion to the accrued costs that are likely to be recovered. The cost of the construction contract is recognized as an expense in the period incurred.

When the loss of a construction contract is likely, the expected loss is recognized immediately.

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.

Notes

28. Summary of Significant Accounting Policies (continued)

Borrowing costs

Interest income is recognized for the relevant period in accordance with the relevant principal and interest rate.

Borrowing costs arising directly from the acquisition, construction or production of assets that qualify for capitalization are capitalized as part of the asset up to the time when the asset is ready for use or sale. A qualifying asset is an asset that takes a considerable amount of time to get into a usable or viable condition.

Investment income from short-term investments related to the financing of capitalized assets is recognized as a deduction of capitalized capital costs.

All other financial expenses are recognized in the income statement during the period in which they are incurred.

Income tax

Income tax is calculated and recognized in the consolidated financial statements. Its calculation is based on pre-tax results, taking into account permanent discrepancies between taxable income and profit according to the annual accounts. The income tax rate is 20%. Expensed income tax consists of income tax payable and deferred income tax.

Income tax payable is an income tax that is scheduled to be paid next year due to taxable profits for the year as well as adjustments to income tax payable for previous years. Taxable profits may be other than accounting profits. Calculated income tax is based on the applicable tax rate at the reporting date.

Deferred income tax is due to the temporary difference between the balance sheet items in the tax settlement on the one hand and the annual accounts on the other, where the income tax base is based on other assumptions than its financial statements. Deferred income tax is not recognized for goodwill that is not tax deductible. Furthermore, deferred income tax is not recognized for investments in subsidiaries if it is considered that the Parent Company can control when the temporary difference is reversed, and it is not expected that the turnaround will occur in the foreseeable future. Deferred income tax is based on the applicable tax rate at the reporting date.

Deferred tax assets are assessed on the balance sheet date and are recognized to the extent that it is probable to use offset taxable profits in the future.

Deferred tax is recognized in the income statement, unless it relates to items of equity, then it is recognized among equity.

Property, plant and equipment

Assets are listed among property, plant and equipment when the economic benefits associated with the asset are likely to benefit the Consolidation and the cost of the asset can be reliably estimated. Fixed assets are recognized using the cost method. Under the cost method, property, plant and equipment are recognized at original cost less accumulated amortization and impairment. The cost of property, plant and equipment consists of the purchase price and all direct costs of bringing the property into a viable state.

Upon the merger of Flugfjarskipti ehf. and Isavia ohf. the properties of the aforementioned company were revalued as the market price of that company's real estate was considered to be significantly higher than the book value. The revalued price is based on the estimated sales price confirmed by the appraisers. The valuation change is recognized in a special revaluation account among equity and on income tax liability.

Depreciation is recognized systematically over the estimated useful life of the asset, taking into account the expected residual value. Estimated utilization time and depreciation methods are reassessed at the end of each accounting period.

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

Gains or losses arising from the sale of property, plant and equipment are the difference between the sale price and the book value of assets at the date of sale and are recognized in the income statement, profit from sales and other sales and other expenses. On the sale of revalued property, plant and equipment, the revaluation is recognized in retained earnings.

The general and special cost of borrowing directly attributable to the procurement, construction and production of an asset is booked as an asset at the time necessary to bring the asset into a remunerative state. Qualifying assets are assets that need time to become remunerative. Other borrowing costs are expensed in the period incurred.

Notes

28. Summary of Significant Accounting Policies (continued)

Intangible assets

Intangible assets are capitalized when it is probable that future economic benefits associated with the asset are likely to benefit the Consolidation and the cost of the asset can be reliably estimated. Among the intangible assets is software. These assets are recognized at cost less accumulated amortization and impairment losses. Depreciation is recognized systematically over the estimated useful life of the asset. Estimated useful lives and depreciation methods are reassessed at the end of each accounting period.

Research costs are expensed in the period for which they are incurred. Development costs are capitalized only if all the following conditions are met:

- The Consolidation has the technical ability to complete the product development in a marketable state
- The intention is to complete the intangible asset and use or sell
- The Consolidation demonstrates its potential to sell the product
- The Consolidation shows how the product will generate future revenue
- The Consolidation has sufficient technology and resources to complete development and sales
- Development expenditure can be measured reliably

Capitalization of development costs is only allowed when all the above conditions are met. Development costs that do not qualify are expensed in the period in which they accrue. After initial registration, development costs are measured at cost less accumulated depreciation and impairment.

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

Leases

The Consolidation assesses whether a contract is or contains a lease, at inception of the contract. The Consolidation recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Consolidation recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Consolidation uses its incremental borrowing rate. The lease payments included in the measurement of the lease liability comprise fixed payments less any incentives, variable lease payments that depend on an index or rate, expected residual guarantees and the exercise price of purchase options if the Consolidation expects to exercise the option.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Consolidation remeasures the lease liability if the lease term has changed, when lease payments change in an index or rate or when a lease contract is modified and the modification is not accounted for as a separate lease.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Consolidation expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Consolidation has used this practical expedient.

Impairment

At the end of each reporting period, the Consolidation 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 an indication of impairment occurs, the recoverable amount of the asset is assessed in order to determine how extensive such impairment is.

The recoverable value is either the net realizable value or the value in use of an asset, whichever is higher. For the purpose of estimating the value in use, expected cash flow has been recognized at present value using the interest rate relevant to the financing of such an asset, taking into account tax. When the recoverable value of individual assets cannot be assessed, the Consolidation assesses the recoverable value of the cash-generating unit to which the asset belongs.

If the recoverable value of an asset or cash-generating unit is lower than the carrying amount, the carrying amount of the asset is reduced to its recoverable value. Impairment of cash-generating units is recognized initially as a decrease in related goodwill, and then at a proportional decrease in the carrying amount of other assets of the entity. Impairment losses are recognized in the income statement.

If previously recognized impairment no longer applies, the carrying amount of the asset may rise again, but not in excess of the original cost. Impairment of goodwill is not reversible.

Notes

28. Summary of Significant Accounting Policies (continued)

Inventories

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

Cash and cash equivalents

Cash and cash equivalents cover cash on hand, bank deposits and other short-term investments easily converted to cash and with a maturity of up to three months. Bank overdrafts are shown amongst short-term liabilities in the balance sheet.

Provisions

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

Financial assets

Financial assets are recognized at fair value on initial recognition in accounting. When financial assets are not measured at fair value through profit or loss, all direct transaction costs are expensed to increase their value at initial recognition in accounting. IFRS 9 divides financial assets into two categories, on the one hand, financial assets are recorded at amortized cost and, on the other hand, financial assets at fair value. The Consolidation records all its financial assets at amortized cost.

Financial assets at amortized cost

Financial assets that are due for maturity and contractual payments on set dates consists only of instalments of principal and interest, shall be recorded at amortized cost unless the instrument is defined at fair value through profit or loss in accordance with fair value allowance. Such assets are initially recognized at fair value plus any related cost. After initial recognition, such financial assets are measured at amortized cost based on effective interest, net of impairment. The Consolidation financial assets valued at amortized cost are bonds, accounts receivable, other short-term receivables and cash.

Effective interest method

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

Interest income is recognized based on the effective interest rate for all financial instruments other than those defined as financial assets at fair value through profit or loss.

Investments held to maturity

Financial assets are classified as financial assets intended to be held to maturity when the Consolidation 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 recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Notes

28. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

Impairment model IFRS 9 is based on the expected loan loss, which is a change from the previous standard IAS 39, which only required that loan losses be recognized as a result of past events. The Consolidation's financial assets that fall within the scope of the impairment model are debt securities, trade receivables, other short-term receivables (apart from capital gains tax, VAT receivable and pre-payments) and cash.

When assessing expected loan losses for accounts receivable, the Consolidation uses a simplified approach. This approach requires that the Consolidation assess allowance for doubtful accounts that is equal to the expected loan losses during the life of the receivables. The Consolidation's accounts receivable is divided into categories according to the number of days that they are due. In assessing a fixed allowance for doubtful accounts ratio for each category, the historical loss history of the Consolidation is taken into account, adjusted for future economic development expectations if needed. The Consolidation conducts the evaluation down to individual customers or group of customers if the experience shows a significant difference in the loss pattern for certain customers or groups of customers. In some cases, this may result in a deviation from the estimated percentage to individual customer groups. See the detailed discussion of expected loan losses for accounts receivable in note 15.

At each reporting date it is examined whether there is objective evidence of impairment of financial assets. A financial asset is impaired if there is objective evidence that one or more events that have occurred will affect the expected future cash flow of the asset and that impairment can be reliably estimated. The Consolidation recognizes specific allowance for doubtful accounts for financial assets where there is objective evidence of impairment.

Changes in the impairment contribution of a financial asset to a provision are recognized in the income statement during the period in which the measurement is carried out. Impairment is reversed if the reversal can be objectively linked to an event that occurred after the impairment was recognized.

Derecognition of financial assets

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

Financial liabilities and equity instruments

Financial liabilities

Other financial liabilities, including liabilities to financial institutions, are initially measured at fair value less transaction costs. For subsequent assessments, they are recognized at amortized cost based on effective interest.

Derecognition of financial liabilities

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

Notes

29. Segment reporting

Segment information are disclosed on basis of organizational structure and internal management information. The majority of business for Isavia ANS ehf. consists of service to air carriers on the basis of a Joint Finance Agreement. Isavia Innanlandsflugvellir ehf. are the operation of airports and airport control towers for domestic flights. Keflavík Airport is the operation of Keflavík International Airport and control tower in Keflavík in addition to Leifur Eiríksson Air Terminal. In Note 28 there are information regarding each segment.

Within the income of segments are lease income that amounts ISK 7.037 million (2021: about ISK 2.862 million) which fall within the scope of IFRS 16 Leases. Other revenue specified above are within the scope of IFRS 15 Revenue from contracts with customers. A more detailed description of the nature of the income and the timing of the Consolidation's revenue can be found in note 28.

Segment information year 2022

	Isavia ANS ehf.	Isavia Innanlands- flugvellir ehf.	Isavia ohf.	Fríhöfnin ehf.	Other subsidiaries	Eliminations	Consolidated
	Air- navigation	Domestic Airports	Keflavík Airport	Duty Free Store	Other		
Revenue							
External revenue	7.268.260	2.745.088	13.521.042	12.418.890	552.217		36.505.496
Inter-segment revenue	842.577	40.251	4.616.913	0	831.167	(6.330.908)	0
Total revenue	8.110.836	2.785.340	18.137.955	12.418.890	1.383.383	(6.330.908)	36.505.496
Income statement							
Operating profit	466.545	(290.364)	127.460	911.514	33.635	(15.432)	1.233.358
Net financial income / (expenses)	(366.954)	17.397	(1.645.670)	(55.399)	4.266	4.153	(2.042.208)
Profit before taxes	99.591	(272.967)	(1.518.210)	856.114	37.900	(11.279)	(808.850)
Profit for the year	79.669	(218.378)	(1.221.464)	684.888	66.935	(9.023)	(617.373)
Balance sheet							
Non-current assets	6.116.029	1.351.035	77.668.255	268.868	108.086	(7.009.092)	78.503.180
Other assets unallocated to segments	2.586.485	1.736.788	12.275.502	2.537.094	547.033	(3.908.544)	15.774.357
Total assets	8.702.514	3.087.822	89.943.757	2.805.962	655.118	(10.917.637)	94.277.537
Total liabilities	7.892.862	3.236.574	49.572.546	1.328.034	259.015	(9.973.650)	52.315.381
Equity	805.169	(148.751)	40.375.469	1.477.928	396.103	(943.763)	41.962.156
Other information							
Capital additions	310.724	149.927	14.701.960	20.456	2.795	0	15.185.862
Depreciation and amortization	345.572	131.472	3.297.195	226.644	102.814	(172.126)	3.931.571

Notes

29. Segment reporting (continued)

Segment information year 2021

	Isavia ANS ehf.	Isavia Innanlands- flugvellir ehf.	Isavia ohf.	Fríhöfnin ehf.	Other subsidiaries	Eliminations	Consolidated
	Air- navigation	Domestic Airports	Keflavik Airport	Duty Free Store	Other		
Revenue							
External revenue	6.344.405	2.601.227	6.148.083	5.235.919	513.253		20.842.888
Inter-segment revenue	719.059	36.440	2.263.177	0	774.612	(3.793.288)	0
Total revenue	<u>7.063.463</u>	<u>2.637.667</u>	<u>8.411.260</u>	<u>5.235.919</u>	<u>1.287.865</u>	<u>(3.793.288)</u>	<u>20.842.888</u>
Income statement							
Operating profit	273.557	(10.305)	(5.196.308)	108.782	118.269	(15.248)	(4.721.254)
Net financial income / (expenses)	(158.346)	(19.712)	3.748.790	(37.050)	19.553	11.912	3.565.147
Profit before taxes	115.210	(30.017)	(1.447.518)	71.732	137.822	(3.336)	(1.156.107)
Profit for the year	92.187	(23.995)	(30.617)	149.425	136.558	(2.669)	320.890
Balance sheet							
Non-current assets	6.652.296	1.325.825	69.175.671	367.536	174.236	(10.169.277)	67.526.288
Other assets unallocated to segments	3.482.728	2.276.017	15.735.968	1.384.083	436.549	(2.735.008)	20.580.337
Total assets	10.135.024	3.601.843	84.911.639	1.751.620	610.785	(12.904.285)	88.106.625
Total liabilities	9.409.524	3.532.217	49.314.705	958.579	282.323	(11.969.550)	51.527.798
Equity	725.500	69.626	35.596.934	793.041	328.462	(934.735)	36.578.827
Other information							
Capital additions	344.410	90.576	5.629.724	8.578	2.346	0	6.075.633
Depreciation and amortization	347.735	125.942	3.319.139	238.023	38.479	(158.464)	3.910.854

Appendix I Statement of Governance

The Statement of Governance is the report of the Board of Directors for the Board's past operating year 2022 - 2023 and is published together with the annual accounts for the calendar year 2022. The Statement of Governance is made in accordance with Article 66. c of the Act on Annual Accounts no. 2006 with subsequent amendments.

With this statement of governance, Isavia is complying with the corporate governance guidelines issued by the Iceland Chamber of Commerce, SA - Confederation of Icelandic Enterprise and Nasdaq OMX Iceland, issued July 1, 2021 and is the 6th edition. The company also follows the General Ownership Policy of the state for all state-owned companies, issued in September 2021.

The structure of governance

Isavia is a public limited share company owned by the state. Act No. 153/2009 on the merger of the public limited share companies Flugstoðir and Keflavíkurflugvöllur applies to the company, as does Act No. 76/2008 on the Establishment of a Public Limited Company for the Operation of Keflavík Airport, Act No. 102/2006 on the Establishment of a Limited Share Company on Air Traffic Control Services and Airport Operation of the Civil Aviation Authority and the Aviation Act No. 80/2022.

The company's governance is based on Act No. 2/1995 on Private Limited Companies, the company's articles of association and the rules of procedure of the board of directors.

The Board of the company regards in its activity the guidelines on governance and complies with them in all essential aspects. The main deviation is that there is no nomination committee at the company, as the nomination for the company's board is with the Minister of Finance and Economic Affairs, who manages the state's share in the company.

There have been no judgments where the company's activities are considered to have violated laws or regulations.

Laws on the company can be accessed on the Althingi's website, www.althingi.is, and articles of association and rules of procedure on the company's website www.isavia.is. Guidelines on corporate governance can be found on the Iceland Chamber of Commerce's website. The guidelines are published at <https://leidbeiningar.is>. More information about the legal and regulatory framework that Isavia must follow, as applicable to Isavia's operations, can be found here: [Laws & regulations | Samgöngustofa \(samgongustofa.is\)](#).

Internal control and risk management

The Board has presented a comprehensive risk policy for the company and identified the main risk components in its operations.

Isavia's risk management is based on the concept of comprehensive risk management (e. enterprise risk management).

The risk strategy is based on Isavia's overall strategy and is intended to support strategy and set goals. The purpose of Isavia's risk policy is to ensure effective risk management and a good risk culture. Approved methods for risk analysis and risk assessment are used and a harmonized process is used for parent and subsidiary companies.

Isavia operates a risk committee which has the authority of the board to determine i.e. the extent and nature of risk assessments and profitability analyses that can have a significant impact on operations and financial position. The risk committee consists of the CEO, the Chief Finance and Human Resources officer and the Risk Manager.

PricewaterhouseCoopers ehf. manages the internal auditing of the company and evaluates risk assessment, supervision methods and governance with all the group's company's with systematic methods and thereby helps the companies attain its objectives.

Chief Officers are responsible for highlighting, defining and assessing risk in their areas in addition to participating in the appropriate management of risk.

The Board

The Board consists of five members and five alternates elected at a shareholders meeting for a term of one year at a time. Board members are nominated to the Board by the Minister of Finance and Economic Affairs. In the Board the gender ratio is 40% women and 60% men. All Board members are viewed as independent, as understood in the "Guidelines on Company Governance".

Appendix I Statement of Governance

The activities and rules of procedure of the board of directors

The Board has established rules of procedure where the main tasks and powers of the Board and the CEO are delimited. The current rules of procedure were approved at a board meeting on April 27th 2022. These include provisions regarding the division of tasks within the board, rules on eligibility for participation in handling matters, on meeting procedures and minutes, rules on confidentiality, disclosure to the board and decision-making power. The rules of procedure of the board are published on the company's website.

The main role of the board is to handle the company's affairs between shareholders' meetings, ensure that there is sufficient supervision of the company's accounting and handling of funds, confirm operating and investment plans and ensure that they are followed. The board makes major decisions in the company's operations and ensures that the company is run in accordance with laws and regulations.

The board must also promote the company's operation and ensure its long-term success, by setting the company a strategy in cooperation with its management.

In the operating year 2022 - 2023, 13 board meetings were held. All board meetings were quorate and all board members attended meetings, but an alternate was called in to one meeting. The Board's work plan for the next operating year is available after the Annual General Meeting. The Chairman of the Board chairs the meetings. In addition to the Board, the CEO and Chief Financial Officer attend Board meetings. The Chief Financial Officer writes the minutes. Minutes are signed by the board, the CEO and CFO.

The evaluation of the work of the board of directors

The Board of Directors evaluates its work on a regular basis, work methods and procedures, the company's progress, the CEO's performance, as well as the effectiveness of subcommittees if they are active. Such an evaluation of performance includes, among other things, that the board assesses the strengths and weaknesses in its work and procedures and considers the things that it believes can be improved.

The appointment of Isavia's board of directors 2022–2023

Kristján Þór Júlíusson, born in 1957, is the chairman of the board from 2022, with a teaching qualification from the University of Iceland and a Captain's qualification from the Marine School in Reykjavík. Kristján Þór was a Member of Parliament for the Northeast Constituency 2007-2021. He was Minister of Health 2013-2017, Minister of Education and Culture and Minister of Nordic Cooperation 2017 and Minister of Fisheries and Agriculture 2017-2021. He was a member of Alþingi's Budget Committee 2007-2013, Industry Committee 2007-2009 and Environment Committee 2009-2011.

Kristján Þór was mayor of Dalvík 1986-1994 and mayor of Ísafjörður 1994-1997. Served on the Akureyri town council 1998-2009 and was mayor of Akureyri 1998-2006. Chairman of the board of the Iðnþróunarfélag Eyjafjarður hf. 1987–1992. On the board of the company's Útgerðarfélag Dalvíkinga hf. 1987–1990, Söltunarfélag Dalvíkur hf. 1987–1993, and Sæplast hf. 1988–1994. Kristján Þór was chairman of the board of Hafnarsamband sveitarfélaga 1994-1997 and chairman of the board of Eyþing 1998-2002. On the board of Togaraútgærð Ísafjarðar hf. 1996–1997 and chairman of the board of Samherja hf. 1996–1998.

On the board of the Sambands Íslenskra sveitarfélaga 1998–2007. Chairman of the board of the Akureyri City Employees' Pension Fund 1998–2007. On the board of the Fjárfestingarbanki atvinnulífsins 1999–2000. On the board of the Eignarhaldsfélags Burnabótafélags Íslands 1999–2008. In the Icelandic Tourism Board 1999–2003. In the years 1999-2007, Kristján Þór sat on the board of Landsvirkjun. He was the chairman of the board of Lífeyrissjóður Norðurlands 2000-2007 and on the board of Fasteignamats ríkisins in the same period. Kristján was on the board of Íslenskra verðbréfa 2002–2009. Kristján Þór was elected to Isavia's board at the 2022 general meeting and sits on Isavia's remuneration committee.

Hólmfríður Árnadóttir, born in 1973, is a board member from 2022, with a B. Ed. and M.Ed. degrees from the University of Akureyri and Dipl. Ed. degree from the University of Iceland. Hólmfríður works as the department head of Kennslumiðstöð of the University of Iceland and project manager of distance learning at the same school. She has over 20 years of management, consulting and teaching experience. She worked as a school principal from 2016-2022 and as an expert at the University of Akureyri from 2012-2016. She has served on numerous boards, councils and committees. Hólmfríður was elected to Isavia's board at the 2022 general meeting and sits on Isavia's remuneration committee.

Matthías Imsland, born 1974, board member since 2014. He is a political scientist from the University of Iceland and holds an MS degree from Lund University in Sweden, has studied business administration at the University of Iceland and management studies at North Park University in Chicago in USA. Matthías is the managing director of various investment companies. He was an assistant to Minister of Social Affairs and Housing from 2013-15, an assistant to Prime Minister from January-April 2016 and then again an assistant to Minister of Social Affairs and Housing from April 2016-January 2017, was for a while the Chief Operating Officer of WOW-air and before its establishment he was CEO of Iceland Express. Matthías was elected to the board of Isavia at the 2014 Annual General Meeting, Vice Chairman 2014-2017 and from 2018. Matthías is independent of Isavia, the day - to - day management of the company and its owner.

Other board positions:

Matthías is on the board of Isavia Innanlandsflugvöllir ehf.

Appendix I Statement of Governance

The appointment of Isavia's board of directors 2022–2023 (continued)

Nanna Margrét Gunnlaugsdóttir, born 1978, board member since 2018, business administrator with an MBA from Reykjavik University. Since 2008, Nanna has run her own company, i.e. in retail and later in various investment projects as well as being on the boards of several companies, worked at Eimskipafélag Íslands from 1998-2008, i.e. in the treasury department and as a sales manager in the sea and air freight department. Nanna Margrét was elected to the board at the 2018 general meeting and is on Isavia's audit committee.

Other board positions:

Nanna is on the board of Fríhöfnin ehf.

Jón Steindór Valdimarsson, born in 1958, board member since 2022, MPM (Master of Project Management) from the University of Reykjavík and with a Law degree (Cand. Juris) from the University of Iceland. Jón Steindór was a Member of Parliament in 2016-2021. He was the manager of the companies TravAble ehf. and Nordberg Innovation ehf. in 2015-2016. Then he was assistant manager and later manager of the Samtaka iðnaðarins 1988-2010. Jón Steindór was on the board of Regin hf. 2014-2015; Board of the Alþjóðamálastofnunar Háskóla Íslands 2002-2013; chairman of the board of Landsbréf hf. 2011-2013; vice chairman of the board of the Framtakssjóður Íslands 2011-2012 and on the board of the Nýsköpunarsjóður atvinnulífsins 2000-2010, of which chairman of the board in 2004-2010. Jón Steindór was elected to Isavia's board at the 2022 general meeting and is on Isavia's audit committee.

Board alternates

Dóra Sif Tynes, born 1972, lawyer, owner at Advel lawyers.

Ingveldur Sæmundsdóttir, born 1970, MBA, assistant to the Minister of Infrastructure.

Sigrún Traustadóttir, born 1962, MBA, consultant. Was the main member of the board 2014-2017, deputy from 2017.

Tómas Ellert Tómasson, born 1970, civil engineer, currently works for SG-hús ehf. on Selfoss.

Valdimar Halldórsson, born 1973, BA in economics and MSc in business administration from the University of Iceland. Was a main member of the board 2018 – 2022.

CEO

The CEO handles the day-to-day operations of the company according to policy and instructions of the board of directors. Day-to-day operations do not include measures that are unusual or significant. He has decision-making power over all operational and financial matters of the company and is in charge of its assets. The CEO reports to the board of directors on the company's activities and results at board meetings, is responsible to the board and complies with the company's articles of association, laws and regulations. The director does not have any related interest with business partners and/or competitors.

The CEO is Sveinbjörn Indriðason, born in 1972, an economist from the University of Iceland in 1998. He worked for Fjárfestingarbanki atvinnulífsins and worked in risk management for Icelandair from 1999 to 2005. Sveinbjörn was CFO of FL Group from 2005 to 2008 and Chief operating and Financial Officer of CLARA from 2011. Sveinbjörn was Isavia's Chief Financial Officer from 2013 until June 2019, when he was appointed Isavia's CEO.

The CEO also oversees and supervises Isavia ohf's subsidiaries. The ownership policy of Isavia ohf's subsidiaries has been established, which seeks to clarify the responsibilities and roles of the owner, the company, the board and management to promote good governance and a clear strategy. Thus, the ownership policy should ensure transparent, professional and efficient management of subsidiaries. Appendices have also been made which set out policies, rules and guidelines that are followed on a consolidated basis. These include human resources policy, sustainability policy, comprehensive risk management policy, ethics and the handling of personal information to name a few. The ownership policy and appendix are available on the company's website www.isavia.is.

The company's financial statements

Isavia's fiscal year is the calendar year. The company's financial statements can be accessed at the Register of Annual Accounts as well as on the company's website www.isavia.is.

Subcommittees

There are two subcommittees of the board of directors, committee members are appointed by the board of Isavia ohf.

Remuneration committee

The board of Isavia appoints two individuals to the remuneration committee who also sit on the company's board. The main task of the remuneration committee is to prepare an annual draft remuneration policy submitted to the company's annual general meeting, prepare a proposal for the annual general meeting on the remuneration of the board, prepare a proposal to the board on criteria for salaries and other remuneration of CEOs and managing directors of subsidiaries. The remuneration committee monitors that the remuneration policy is implemented and that salaries and terms of employment are in accordance with laws, rules and good practice. The rules of procedure of the remuneration committee together with the company's remuneration policy can be found on the company's website.

Appendix I Statement of Governance

Audit committee

Chapter IX of Act no. 3/2006 on annual accounts, cf. Act no. 80/2008 applies to the audit committee. The company's board sets the committee's rules of procedure, to further complement the law. At its first meeting after the Annual General Meeting each year, Isavia's board of directors appoints three individuals to Isavia's audit committee. It consists of three members, one independent of the company and two members of the board. The main role of the audit committee is to assess the company's supervisory environment, analyse the effectiveness of internal auditing, monitor the implementation of auditing, make a proposal for the selection of an external auditor in consultation with the National Audit Office, cf. Article 7 Act no. 46/2016 on the Auditor General and the audit of the central government accounts, together with an assessment of the auditor's independence, an assessment of the effectiveness of risk policy, risk appetite and risk management, and ensure compliance with applicable laws and regulations. The committee's other tasks include reviewing financial information and the arrangements for providing information from management, internal auditing and external auditors, and verifying that the information the board receives about the company's operations, position and future prospects is reliable and gives the clearest picture of the company's position at any given time. Roles and rules of procedure can be found on the company's website.

Arrangements for shareholder and board of directors relations

One shareholder, the Icelandic state, owns all the shares in the company and the Minister of Finance and Economic Affairs controls the share. Notice of a shareholders' meeting is sent to a contact person at the Ministry of Finance and Economic Affairs. Shareholder meetings are the main forum for providing information to the shareholder. Other communication with shareholders on the company's affairs is in most cases initiated by the company. The Chairman of the board of directors and the CEO have had meetings with the Minister or employees of the Ministry of Finance.

The board of directors and the CEO of the company follow the *General Ownership Policy of the state for all state-owned companies* in their work. The company sends out press releases that inform about the company's results and other aspects of its operations, as applicable.

Statement of governance was approved at the board meeting of Isavia ohf. on the March 8th 2023.

Appendix II Non-financial disclosure

The business model

Isavia ohf. is a public limited company that handles the operation, maintenance and development of Keflavík Airport. Its subsidiaries are three at the end of 2022: Isavia Innanlandsflugvelli ehf. which handles the operation of airports for domestic scheduled flights and landing sites in Iceland, Frihöfnin ehf. which handles the operation of four duty free shops in Leif Eiríksson Air Terminal and Isavia ANS ehf. providing domestic and international air navigation services across the North Atlantic. The subsidiary Isavia ANS ehf. owns two subsidiaries, Tern Systems ehf. which is a software company and Suluk ApS which is a service for air traffic controllers in Greenland. Tern Systems ehf. owns one subsidiary, also a software company, which is Tern Branch Hungary.

Isavia is a service company which operates and maintains the infrastructure on which Icelandic aviation is based, its connection with the rest of the world and aviation between continents. The company's activity is therefore vital for the nation and the economy. Wide emphasis is placed on those economic actors that rely on the services of the company and are impacted by it.

Isavia operates in an international competitive market where competition between airports is keen. The market environment has undergone profound change in recent years, with no end in sight. Greater emphasis has been placed on sustainability in airport operations, and Isavia has made a determined effort in recent years to ensure future sustainability. The company sees great opportunities in Iceland's future competitive advantage, based on the environment and sustainability. The company's policy reflects these views.

Strategy

The purpose of Isavia, the parent company, is to lead an airport community that increases the quality of life and prosperity in Iceland, and the vision is to connect the world through Iceland. The purpose emphasizes the role of Keflavík Airport as an important infrastructure for Icelandic society and the responsibility that comes with it in a sustainable future. The overall purpose and strategy reflects the company's focus on sustainability and the balance between the economy, environment and society.

Isavia's vision is to connect the world through Iceland. It focuses on the development of the transfer hub and reflects the expected development in the coming years in air transport. In order to support the development, the airport's infrastructure needs to be built. The company's strategy aims to deliver a leading airport that will grow sustainably and support the nation's prosperity. After all, they deliver significant economic benefits for the economy.

Key metrics

Key metrics of Isavia ohf. were updated during the year in order to systematically work towards the success of the strategy. The company's management worked on proposals for strategic measures that were approved by the executive board. It was decided to work on five key metrics in 2023. They are:

Goal 1: The return on equity will be over 10% in 2027. It will increase from 1.9% to 3.2% in 2023.

Goal 2: The percentage of satisfied customers will be 85% in 2027. Passenger satisfaction will increase 84% to 85% in 2023 for passengers. Measurements will begin with the satisfaction of other customers.

Goal 3: Employee satisfaction will exceed 8 out of 10 in 2027. It will go from an average of 7.5 to 8.0 in 2023 and remain there.

Goal 4: Keflavík Airport's carbon footprint will be below 1,000 tons of CO₂ in 2027. It will decrease from 2,185 tons to 1,760 tons by the end of 2023.

Goal 5: There will be no serious safety, security or occupational health incidents at Keflavík Airport in 2027. No serious incidents in the safety, security and occupational health and safety categories attributable to Isavia's operations and infrastructure at Keflavík Airport in 2023.

Sustainability

The Isavia group has a policy of social responsibility and has supported the UN Global Compact since 2016. With that, Isavia commits itself to ensure that its policies and practices are in line with the ten criteria of the United Nations on human rights, labour issues, environmental issues and anti-corruption measures. Isavia supports the United Nations' Global Goals for Sustainable Development and works systematically towards them. The Isavia group has a sustainability policy that states that the company has sustainability as its guiding principle in everything it does. The policy is supported by five-year action plans tailored to each company in the group, valid until the end of 2026.

Isavia's goals, metrics and actions to achieve sustainability are set out in a five-year sustainability action plan that was submitted to the Environment Agency at the end of 2021, as required by law. When choosing the goals and remedial projects related to them, we looked at the nature of the company and its metrics, the suggestions of external stakeholders, the Global Goals and the government's emphasis on them and on climate issues. Account was also taken of improvement opportunities linked to the GRI factors, the company's commitments to the principles of the UN Global Compact and incentive projects that the company is a member of. In addition, ACI (Airport Council International) has issued guidelines on sustainability paths for airports that were taken into account. The action plan was submitted to the CEO and executive board for approval and presented to the board of directors.

Appendix II Non-financial disclosure

Sustainability

The action plan in 2022 was systematically worked on and actions were followed up on in the company's strategic accounting. About 80% success was achieved in the progress of actions. Just under 70% were completed, but other actions were transferred to the year 2023 from older actions, as some actions were set for more than one year. A total of 24 actions out of 36 were completed in 2022 in the four categories covered by the sustainability policy. In 2023, 37 actions in sustainability will be worked on. The priorities have been approved by the executive board and presented to the management.

Environmental issues

In accordance with the company's sustainability policy, Isavia's guiding principle is to keep the negative environmental impact of its activities to a minimum in harmony and cooperation with stakeholders with a focus on climate issues. Keflavík Airport is a participant in a carbon certification system organized by the Airports Council International (ACI) called Airport Carbon Accreditation (ACA) and has a certified environmental management system according to the international standard ISO14001. Isavia's carbon footprint has been reviewed and verified by an external party, the international accounting firm Bureau Veritas. Certification was supported according to ISO 14064-3 and awarded limited assurance.

Fuel consumption is the most important environmental factor in Isavia's operations. Fuel consumption in the operation is closely monitored and efforts are made to reduce it where possible. Most of the use is for service and maintenance of runways and tarmacs areas of the airports. In 2021, a detailed analysis was made of the replacement of vehicles at Keflavík Airport. As a result, a decision was made that the airport would be carbon-free by 2030, which means that all vehicles owned by Isavia ohf. will be based on environmentally friendly energy sources. Isavia carbon offsets its activities.

Code of conduct

Isavia has a code of conduct, which was updated in 2022. It covers all the company's activities, staff events and work-related travel. They apply to the staff, managers and boards of the companies within the group and are part of their employment contracts. The code of conduct for Isavia's suppliers and subsidiaries is established in accordance with the ten criteria of the UN Global Compact. The company's suppliers are required to comply with the code of conduct as a minimum standard and that they make the same requirement to their suppliers. Isavia should be notified if a violation of the code is suspected. If requested, suppliers must be able to confirm that these codes of conduct are followed. The company's contracts contain provisions on the prohibition of artificial contracting, and stipulate that relationship must be the main rule in interaction between the staff and contracting vendor. This is done to ensure that all wage related payments, by whatever name they are called, are paid and that the provisions of wage contracts are followed.

Human resources

Isavia's human resources policy is to create a workplace where employees show respect to each other and are honest with themselves and others. The company intends to be at the forefront as a workplace where equality and trust prevail. Efforts are being made to ensure equal opportunities for employees and the possibility to use their talents at work.

In 2022, the company's human resources and equality policies were combined into one to show that equality issues are part of all human resources-related issues at the company. Along with the policy, a new equality action plan was sent for approval by the Equal opportunities agency, which certified the plan for the next two years.

Isavia is committed to implementing, documenting and maintaining an equal pay system in accordance with the requirements of the equal pay standard ÍST 85 and obtaining equal pay certification in accordance with Act no. 150/2000 on equal status and equal rights of irrespective of gender. The company implemented an equal pay management system in 2018. In 2022, the company received re-certification after an audit carried out by BSI in Iceland. The equal pay management system is intended to ensure that all employees are paid equal wages and enjoy the same pay for the same or equally valuable work, regardless of gender. Along with the certification, a wage analysis was carried out, which revealed that there is no unexplained gender wage gap at Isavia.

Isavia has a response plan for bullying, gender-based and sexual harassment and violence (EKKO) in accordance with the relevant law. The plan covers all of Isavia's establishments and subsidiaries and applies equally to staff, managers and contractors who work on behalf of the company or on behalf of other service providers at Isavia's establishments. The response plan is based on Isavia's policy that bullying, sexual harassment, gender-based harassment or other forms of violence are not tolerated under any circumstances. It is the company's goal to eradicate such behaviour through preventive actions in the form of education and through professional work processes.

Employees or others who have information about breaches of law or other reprehensible conduct in the group's operations must report this. Isavia ensures a certain level of protection for those who report offenses or other reprehensible conduct in the operation in accordance with Act no. 40/2020 on the protection of whistle-blowers. Notices to that effect can be submitted through the Isavia website.

Appendix II Non-financial disclosure

Risk management

Isavia adheres to a formal process of risk management to reduce and manage financial and non-financial risk of the company. The process seeks to map the main risk elements of the company and apply appropriate measures to mitigate such undesirable events. Work is carried out in accordance with comprehensive risk management based on Isavia's overall strategy. The managers manage the company's risk in accordance with Isavia's risk tolerance set by the board. Risk tolerance, i.e, the limits of acceptable deviations from goals are defined, among other things, in the laws and regulations that apply to the activity, national and international obligations, policy documents, processes, procedures and manuals. Isavia's risk management is discussed in more detail in the company's corporate governance statement and annual report.

Annual report

The annual report of the Isavia group is issued according to the international standard of the Global Reporting Initiative, including its special provisions regarding airports. The report deals with the points of emphasis, goals, key criteria and achievements of Isavia in its quest for increased sustainability. The report deals with issues of the environment, the community and the economy in detail. Furthermore, Isavia presents an annual report of the company each year as a progress report to the UN Global Compact and Global Reporting Initiative. The report is now published for the seventh time in this way. The reports are saved in the company's file system and published on an external website under the URL: <https://www.isavia.is/fyrirtaekid/um-isavia/utgefid-efni/arsskyrslur/arsskyrslur>.

