Annual Financial Statements 2021

Isavia ohf.

Consolidated
Financial Statements

2021

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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 Innanlandsflugvellir ehf. and Fríhöfnin 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 2021 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 2021

According to the statement of income and expenditure of Isavia ohf., total operating income in 2021 amounted to ISK 20.843 million (2020: ISK 14.737 million). The profit for the year amounted to ISK 321 million (2020: ISK 13.178 million loss). The positive exchange rate difference amounted to ISK 1.955 million (2020: negative ISK 3.800 million). Wages and other staff costs amounted to ISK 14.880 million (2020: ISK 14.654 million), and the average number of staff in 2021 was 1.022 (2020: 1.081). The gender ratio among the staff and managers is 63% men and 37% women.

On December 31st 2021, the total assets of the consolidated group amounted to ISK 80.107 million (2020: ISK 80.477 million). Equity at the end of 2021 amounted to ISK 36.579 million (2020: ISK 27.259 million) and the equity ratio for the consolidated group was 41,5% at the end of the year (2020: 33,9%).

The Group's claim for previous years value added tax was paid by the Iceland Revenue and Customs in 2021 following the ruling of the Internal Revenue Board no. 181/2020 from December 2020, see further in note 15 in the financial statements.

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 profit of the year be carried over to next year and in other respects refers to the consolidated annual accounts regarding changes in the assets of the company.

Share capital

At the end of the year, the share capital amounted to ISK 18.559 million (2020: ISK 9.559 million). The share capital was increased by ISK 9.000 million during the year.

The Group's Board of Directors proposes that no dividend be paid to the company's owner for the 2021 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

Isavia ohf. has established an ownership policy for it's subsidiaries, 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.

COVID-19

The Covid epidemic still had a significant impact on Isavia's operations in 2021. Uncertainty over the development of the epidemic, flight restrictions and strict border control measures affected air traffic over the Icelandic airspace as well as having a major impact on the number of passengers at Keflavík Airport and domestic flights. International air traffic started slowly at the beginning of the year but increased steadily as the year progressed.

Air traffic within the Icelandic airspace was about 53% of air traffic in 2019 and passengers at Keflavík Airport were about 30% of the number of passengers in 2019. However, the decrease in passengers on domestic flights was less than on international flights or about 81% of passengers in 2019. Revenue of Fríhöfnin ehf. in 2021 was 2021 40% of the revenue in 2019. For further discussion, see Note 23 to the financial statements.

Future prospects

The Group's plans assume that a low point was reached in 2020 and that the turnaround that began in 2021 will continue in 2022. It is therefore the opinion of the Board of Directors and the CEO that the Group meets the going concern principle and the company is well positioned to handle the coming air traffic and an increase in passengers at the Group's airports, as well as the development of infrastructure planned at Keflavík Airport in the coming years.

Community responsibility and non-financial information disclosure

The activities of Isavia are subject to the provisions of the Annual Accounts Act regarding non-financial information disclosure. Isavia ohf. pursues a policy of community responsibility and has supported the UN Global Compact of 2016. The company thereby commits itself to pursue a policy and practice in pursuit of the ten criteria of the United Nations on human rights, labour, the environment and anti-corruption. Isavia supports the UN Global Goals on sustainable development and works on attaining its objectives.

The annual and community relations report of Isavia is issued according to an international standard of the Global Reporting Initiative 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. The report extensively covers issues of the environment and the community as well as economic issues. 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 sixth 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/arsskyrsla2021.

Statement by the Board of Directors and Managing Director

The statement of the Board and Managing Director

The Board and the Managind 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 2021.

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 2021 with their signatures and propose that the Annual General Meeting of the company approve the consolidated accounts.

Hafnarfjörður, March 10th 2022

Board of Directors

Orri Hauksson
chairman of the Board

Eva Pandora Baldursdóttir
board member

Nanna Margrét Gunnlaugsdóttir
board member

Matthías Páll Imsland
board member

Valdimar Halldórsson
board member

Managing Director

Sveinbjörn Indriðason

The Auditor General's Report

To the Board of Directors and Shareholders of Isavia ohf.

Expectations, role and responsibilities of the Auditor General

The Auditor General operates based on Act no. 46/2016, on the Auditor General and the auditing of government accounts and the Code of Ethics set by the International Organization for Supreme Audit. The role of the Auditor General is to ensure that audits and controls are in accordance with Article 4 of the Act.

The Auditor General is responsible for the work of the Auditors, who work for the Icelandic National Audit Office and perform an audit based on the Act on Auditors and audit, Act on Financial statements and other general rules that they comply with according to International Standards on Auditing

The Audit was conducted in accordance with Act no. 46/2016 on the Auditor General and audit of state accounts and Act no. 94/2019 on Auditors and auditing.

The Icelandic National Audit Office, March 10th, 2022

Guðmundur B. Helgason
Auditor General ad interim

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, 2021. 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, 2021, 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 skepticism 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 10th, 2022

Hinrik Þór Harðarson
State Authorized Public Accountant

Birgir Finnbogason
State Authorized Public Accountant

Consolidated income statement year 2021

	Notes	Consolidation 2021	2020
Operating revenues	4	20.842.888	14.736.721
Operating expenses			
Cost of goods sold		(2.466.741)	(1.706.713)
Salaries and related expenses	5	(14.879.606)	(14.653.980)
Administrative expenses		(396.370)	(347.946)
Other operating expenses		(3.910.571)	(4.164.780)
		(21.653.288)	(20.873.419)
Operating loss before depreciation		(810.400)	(6.136.698)
Depreciation and amortization	9,10,11	(3.910.854)	(3.916.827)
Operating loss		(4.721.254)	(10.053.525)
Financial income	7	2.919.502	121.305
Financial expenses	7	(1.309.448)	(1.196.402)
Net exchange rate differences	7	1.955.093	(3.800.275)
Loss before taxes		(1.156.107)	(14.928.895)
Income tax	8	1.476.997	1.751.330
Profit (loss) for the year		320.890	(13.177.565)

Consolidated Statements of Financial Position December 31st 2021

Assets	Notes	Consolidation 31.12.2021	31.12.2020
Non-current assets			
Property, plant and equipment	9	59.636.877	57.193.958
Intangible assets	10	4.355.599	4.611.584
Right of use asset	11	361.213	353.874
Bonds	13	1.994.507	79.843
Deferred tax asset	18	1.178.092	0
		67.526.288	62.239.260
Current assets			
Inventories	14	416.507	279.877
Accounts receivables	15	3.172.511	2.606.353
Current maturities of long-term assets	13	527.503	38.719
Other receivables	15	1.781.052	5.940.347
Cash and cash equivalents	15	14.682.766	9.372.336
		20.580.337	18.237.633
Total assets		88.106.625	80.476.893
Equity and liabilities			
Equity			
Share capital	16	18.559.063	9.559.063
Statutory reserves		2.483.798	2.483.798
Revaluation reserves		39.712	41.036
Retained earnings		15.496.253	15.175.455
Total equity		36.578.827	27.259.353
Non-current liabilities			
Loans from credit institutions	17	42.617.951	43.660.249
Lease agreements	11	276.036	274.360
Deferred tax liabilities	18	0	299.989
		42.893.988	44.234.598
Current liabilities			
Accounts payable	19	3.800.969	1.630.291
Current maturities of loans from credit institutions	17	1.829.083	4.086.163
Current maturities of lease agreements	11	94.606	83.727
Current tax liabilities	8	740	3.888
Other current liabilities	19	2.908.413	3.178.873
		8.633.811	8.982.941
Liabilities		51.527.798	53.217.540
Total equity and liabilities		88.106.625	80.476.893

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Consolidated Statement of Changes in Equity 2021

	Share Capital	Statutory reserves	Revaluation reserves	Retained earnings	Total Equity
Opening balance at 1 January 2020	5.589.063	2.483.798	42.360	28.350.724	36.465.945
New share capital	3.970.000	0	0	0	3.970.000
Depreciation of revaluation	0	0	(1.324)	1.324	0
Translation differences	0	0	0	973	973
Comprehensive income	0	0	0	(13.177.565)	(13.177.565)
Balance at 31 December 2020	9.559.063	2.483.798	41.036	15.175.455	27.259.353
Opening balance at 1 January 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 difference	0	0	0	(1.416)	(1.416)
Comprehensive income	0	0	0	320.890	320.890
Balance at 31 December 2021	18.559.063	2.483.798	39.712	15.496.253	36.578.827

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 2021

		Consolidation	
	Notes	**2021**	**2020**
Cash flows from operating activities			
Operating loss		(4.721.254)	(10.053.525)
Depreciation and amortization	9,10,11	3.910.854	3.916.827
Accounting provision of current assets	14,15	(40.220)	151.893
Loss (gain) on disposal of assets		(11.387)	(2.399)
Operating cash flow before changes in operating assets and liabilities		(862.007)	(5.987.203)
Changes in inventories		(179.186)	356.356
Changes in operating assets		1.848.079	(1.026.046)
Changes in operating liabilities		719.528	(1.056.990)
Cash generated from (to) operations		1.526.414	(7.713.883)
Interest income received		3.214.018	250.643
Interest expenses paid		(1.040.096)	(613.542)
Income taxes paid		(3.550)	(380.878)
Net cash generated from (to) operating activities		3.696.786	(8.457.660)
Investing activities			
Acquisition of property, plant and equipment	9	(5.974.158)	(3.153.432)
Sale of property, plant and equipment		86.092	10.731
Acquisition of intangible assets	10	(101.475)	(227.138)
Installments on bonds	13	41.505	41.027
Long term claim Joint Finance contract, change	13	(571.335)	0
Investing activities		(6.519.372)	(3.328.812)
Financing activities			
New long-term borrowing	17	183.024	7.792.000
Repayment of borrowings	17	(2.004.869)	(727.292)
Installments of leases	11	(90.585)	(62.222)
Current liabilities, finance of contstruction plan, change	19	1.289.309	583.390
New share capital	16	9.000.000	3.970.000
Financing activities		8.376.879	11.555.876
Net change in cash and cash equivalents		5.554.293	(230.597)
Cash and cash equivalents at the beginning of the year		9.372.336	9.166.641
Effect of foreign exchange rates		(243.863)	436.292
Cash and cash equivalents at the end of the year	15	14.682.766	9.372.335

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Notes

1. General information

Isavia ohf. (the Consolidation) was established in the beginning of 2010 with a merger between Flugstodir ohf. and Keflavíkurflugvöllur ohf. Isavia ohf. is a government owned private limited Company and complies with the Icelandic limited companies law No. 2/1995. The Company's domicile and venue is 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. On January 1st 2020, Isavia ohf. was divided, whereby the operation of air traffic control and domestic airports was transferred to separate companies. The air traffic control part was transferred to the subsidiary Isavia ANS ehf., and the domestic airport part was moved to the subsidiary Innanlandsflugvellir ehf.

The Consolidated Financial Statements of Isavia ohf. consist of the Parent Company and its subsidiaries. Companies within the consolidation are in addition to Isavia ohf., Isavia ANS ehf., Isavia Innanlandsflugvellir ehf., *Fríhöfnin* ehf., Tern Systems ehf. and Suluk ApS in Greenland. Domavia ehf. was a subsidiary until it was terminated in September 2021.

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 2021, 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. An assessment of the fair value of financial assets and financial liabilities is provided in the notes below. 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 2021. 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	2021	2020
Revenue from sales	5.138.921	3.339.261
Revenue from services	11.818.586	8.354.532
Revenue from contracts	2.029.100	1.827.800
Revenue from long term assets	1.856.281	1.215.129
	20.842.888	14.736.721

Revenue from long term assets consist from revenues of assets, land and equipment. Within revenues from long term assets are rental revenues that fall under IAS 17 Rental Contracts. 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 2021 amounted to ISK 2.029 million, of which the Ministry's additional contribution is ISK 57 million due to a fall in revenue that can be attributed to the covid epidemic. In 2020, the additional contribution due to the epidemic amounted to ISK 323 million.

Notes

5. Salaries and related expenses

	2021	2020
Salaries	12.001.292	11.803.523
Contribution to defined contribution plans	1.916.160	1.926.676
Payroll taxes	840.235	876.016
Salary-related expenses	221.756	217.419
Additional contribution to pension fund and changes in vacation obligation	146.644	119.879
Capitalized employment expenses	(689.639)	(717.096)
Other employee expenses	443.158	427.564
	14.879.606	14.653.980
Average number of employees	1.022	1.081

Total salaries payments and the counter-contribution to pension funds for the CEO of Isavia ohf. amounted to ISK 42,0 million, compared to ISK 41,6 million in 2020. In 2021, total payments and counter-contributions to pension funds to the three Directors of the consolidated group, the Directors of subsidiaries and Directors of the parent company amounted to ISK 308,6 million, compared to ISK 316,8 million the year before.

6. Fees to auditors

	2021		2020	
	Audit	Other service	Audit	Other service
Deloitte ehf.	0	0	10.347	12.852
The Icelandic National Audit office	42.636	0	17.546	515
	42.636	0	27.892	13.367

Other services include the cost of accounting, tax service and assistance on tax return. In 2021, this service was purchased by a third party that is independent of the company's audit. Of other services in 2020, about ISK 3 million is due to assistance with the division of the company and about ISK 7 million is due to projects that are not related to accounting.

7. Financial income and expenses

Financial income

	2021	2020
Interest on bank deposits	56.331	67.012
Interest revenue on investments held to maturity	6.326	6.926
Other interest revenue	2.856.845	47.368
	2.919.502	121.305

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

Financial expenses

	2021	2020
Interest expense and indexation	(1.237.647)	(1.165.559)
Debt collection fee	(71.801)	(30.842)
	(1.309.448)	(1.196.402)

Among other interest expenses is penalty interest on customer's case due to agreements in the amount of ISK 10,4 million.

Net exchange rate differences

	2021	2020
Net exchange rate differences	1.955.093	(3.800.275)
	1.955.093	(3.800.275)

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8. Income tax

Income tax has been calculated and recorded in the Financial Statements, the amount charged in the Income Statement is ISK 1.477 million. Income tax payable in the year 2022 is ISK 740 thousand. In year 2020 income tax charged in the Income Statement was ISK 1.751 million and income tax payable in year 2021 was ISK 3,9 million.

The effective tax rate is specified as follows:

	2021		2020	
	Amount	%	Amount	%
Profit before taxes	(1.156.107)		(14.928.895)	
Tax rate	(231.221)	20,0%	(2.985.779)	20,0%
Other changes	(12.452)	(0,0%)	5.815	(0,0%)
Other changes due to taxable loss	(1.233.323)	(8,2%)	1.228.634	(8,2%)
Income tax according to Income statement	(1.476.997)	11,7%	(1.751.330)	11,7%

Other changes due to tax loss came in 2021 because of recognition of income tax asset, but other changes due to tax loss in 2020 are because of income tax asset that was generated by companies in the group but was not recognised in that year due to uncertainty related to covid.

9. Property, plant and equipment

	Buildings and artwork	Aprons and car parks	Control systems	Other assets	Total
Cost					
Balance at 1 January 2020	37.416.722	19.136.810	3.781.516	16.856.645	77.191.693
Additions	1.476.657	951.773	5.282	719.720	3.153.432
Disposals	(163.359)	(766.276)	(787.182)	(310.456)	(2.027.273)
Sold	0	0	0	(25.119)	(25.119)
Balance at 1 January 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 31 December 2021	40.209.619	22.862.265	2.744.931	16.058.597	81.875.413
Accumulated depreciation					
Balance at 1 January 2020	8.918.303	3.223.573	1.666.777	5.833.444	19.642.097
Charge for the year	970.428	793.896	327.171	1.409.243	3.500.738
Disposals	(163.359)	(766.276)	(787.182)	(310.456)	(2.027.273)
Sold	0	0	0	(16.786)	(16.786)
Balance at 1 January 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 31 December 2021	9.581.911	5.131.971	1.264.560	6.260.094	22.238.535
Book value					
Book value at beginning of year	29.004.648	16.071.114	1.792.851	10.325.345	57.193.958
Book value at year-end	30.627.708	17.730.294	1.480.371	9.798.503	59.636.877

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	3-20 years

Notes

9. Property, plant and equipment (continued)

Information about the revalued properties in year-end:

	31.12.2021	31.12.2020
Revalued book value	100.719	103.715
Impact of the special revaluation	(48.426)	(50.040)
Book value without impact of revaluation	52.293	53.675

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

	2021		2020	
	Assessment value	Insurance value	Assessment value	Insurance value
Buildings and sites	31.147.441	55.813.003	29.625.906	59.954.212
Machinery and equipment, asset insurances		28.475.631		25.468.651
Other insurances		1.121.503		721.500
Halt insurance		11.623.430		15.592.659

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 1 January 2020	477.035	5.706.000	1.214.512	7.397.547
Additions	0	0	227.138	227.138
Disposals	0	0	(98.912)	(98.912)
Balance at 1 January 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 31 December 2021	477.035	5.706.000	1.452.253	7.635.288
Amortization				
Balance at 1 January 2020	174.954	2.092.688	393.333	2.660.974
Charge for the year	15.899	190.174	146.054	352.127
Disposals	0	0	(98.912)	(98.912)
Balance at 1 January 2021	190.853	2.282.862	440.475	2.914.189
Charge for the year	15.899	190.174	159.425	365.498
Balance at 31 December 2021	206.752	2.473.036	599.900	3.279.688
Book value				
Book value at beginning of year	286.182	3.423.138	902.264	4.611.584
Book value at year-end	270.283	3.232.964	852.353	4.355.600
Depreciation rate	3,3%	3,3%	5-33%	

Development costs in the amount of ISK 62,5 million due to work on the development of software intended for sale on the world market were capitalized in the years 2012 to 2015. This is a capitalization of one of the company's products now called Polaris, which was previously called TAS. The software is used by customers around the world. Development costs are recognized at cost as intangible assets with an indefinite useful life and are tested for impairment at least annually. The most recent impairment test was performed on development costs at the end of 2021. The conclusion is that the recoverable value of the equipment exceeds the company's book value and it is the management's opinion that development costs have not decreased in 2021.

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. .

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Notes

11. Leases

The consolidated group leases property, land and other equipment for use in its operations.

Right-of-use assets	Property	Other	Total
Recognised on initial application, 1 January 2020	151.293	15.929	167.222
Adjustments for indexed leases	3.860	360	4.220
New or renewed leases	246.395	0	246.395
Depreciation	(63.729)	(232)	(63.962)
Balance at 31 December 2020	337.818	16.056	353.874
Adjustments for indexed leases	16.914	596	17.510
New or renewed leases	91.502	(4.814)	86.689
Depreciation	(96.484)	(376)	(96.860)
Balance at 31 December 2021	349.750	11.463	361.213

Amounts recognised in income statement	2021	2020
Depreciation expense from right-of-use assets	96.860	63.962
Interest expense on lease liabilities	16.344	6.840
Total amount recognised in income statement	113.204	70.801
Payment of leases for the year	107.987	69.940
Lease liabilities		
Lease liabilities, long term	276.036	274.360
Lease liabilities, current maturities next 12 months among current liabilities	94.606	83.727
	370.642	358.087

Lease liabilities

Maturity analysis, undiscounted lease payments	31.12.2021	31.12.2020
Not later than 1 year	110.168	99.893
Later than 1 year and not later than 5 years	258.512	269.242
Later than 5 year	79.763	65.964
	448.443	435.100

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	Domestic airport operations
Isavia Innanlandsflugvellir ehf., Reykjavik Airport	100,00%	52.350	Air traffic control services
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

The subsidiary Domavia ehf. was terminated in September 2021.

Notes

13. Bonds and other long term assets

Bonds	31.12.2021	31.12.2020
Bond loan	82.257	118.562
Current maturities	(39.552)	(38.719)
	42.705	79.843

Long term asset	31.12.2021	31.12.2020
Long term assets - Joint Finance contract	2.439.752	0
Current maturities	(487.950)	0
	1.951.802	0

Bonds and long term assets instalments are specified as follows:

	31.12.2021	31.12.2020
Year 2021	0	38.719
Year 2022	527.503	39.111
Year 2023	497.932	9.521
Year 2024	498.382	9.949
Year 2025	498.851	10.397
Year 2026	499.342	10.865
	2.522.009	118.562

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

14. Inventories

	31.12.2021	31.12.2020
Goods for resale	384.991	336.164
Goods in transit	27.489	2.548
Supplies	10.152	0
Allowance for old and obsolete inventory	(6.126)	(58.835)
	416.507	279.877

Changes in allowance for old and obsolete inventory:

At the beginning of the year	(58.835)	(12.425)
Reversed allowance for old and obsolete inventory	36.759	(85.319)
Inventories written off	15.950	38.909
At year-end	(6.126)	(58.835)
Insurance value of inventories	750.301	745.200

No inventories have been pledged at year-end.

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

15. Other financial assets

Accounts receivables

	31.12.2021	31.12.2020
Domestic receivables	3.263.762	2.897.391
Foreign receivables	400.766	196.520
Allowances for doubtful accounts	(2.254.744)	(2.355.974)
Receivables Joint Finance contract	1.762.726	1.868.417
	3.172.511	2.606.353

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Notes

15. Other financial assets (continued)

Aging and allowance for doubtful accounts

Changes in the allowance for doubtful accounts:

	31.12.2021	31.12.2020
At the beginning of the year	(2.355.974)	(2.151.079)
Impairment loss recognized on receivables	76.301	(204.895)
Amounts written off as uncollectable	24.929	0
At year-end	(2.254.744)	(2.355.974)

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.

Value of allowance for doubtful accounts in the year end 2021 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 Keflavík 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 2.112,6 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.

	31.12.2021			
	Expected loss	Gross amount	Allowance	Book value
Receivables not yet due	0,6%	1.186.714	7.360	1.179.354
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		3.802.414	2.254.744	1.547.670

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

Other receivables

	31.12.2021	31.12.2020
Value added tax of previous years	0	5.196.837
Value added tax	451.418	181.087
Prepaid expenses	126.632	120.929
Capital income tax	616.933	19.847
Prepaid salaries	38.409	44.914
Other receivables	547.660	376.733
	1.781.052	5.940.347

The Group's claim for previous years value added tax was paid by Internal Revenue and Custom in 2021 following the ruling of the Internal Revenue Committee no. 181/2020 from December 2020.

Notes

15. Other financial assets (continued)

Cash and cash equivalents

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

	31.12.2021	31.12.2020
Bank balances in ISK	13.189.186	2.142.503
Bank balances in foreign currencies	1.486.621	7.225.759
Cash in ISK	6.959	4.075
	14.682.766	9.372.336

16. Equity

Share capital is specified as follows:

	Shares	Ratio	Amount
Total share capital at year-end	18.559.063	100,0%	18.559.063
	18.559.063	100,0%	18.559.063

Each share of one ISK carries one vote. The Ministry of Finance carries the voting rights on behalf of the Icelandic Treasury. Increase in share capitalization was ISK 9.000 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	
	31.12.2021	31.12.2020
Liabilities in EUR	38.810.565	40.710.213
Liabilities in ISK	5.636.469	7.036.199
	44.447.034	47.746.412
Current portion of long term liabilities	(1.829.083)	(4.086.163)
Non-current liabilities at year-end	42.617.951	43.660.249

Change in liabilities for the year is following:

	31.12.2021	31.12.2020
Liabilities at beginning of the year	47.746.412	36.050.897
New long-term borrowings in the year	895.527	8.030.202
Instalments for the year	(2.004.869)	(727.292)
Exchange rate difference and indexation	(2.190.035)	4.392.604
Liabilities at the end of the year	44.447.034	47.746.412

Instalments of non-current liabilities are specified as follows:

	Loans from credit institutions	
	31.12.2021	31.12.2020
Instalments in 2022 / 2021	1.829.083	4.086.163
Instalments in 2023 / 2022	2.118.586	5.780.049
Instalments in 2024 / 2023	2.406.661	1.900.874
Instalments in 2025 / 2024	2.790.083	2.205.290
Instalments in 2026 / 2025	14.174.447	2.610.532
Instalments later	21.128.175	31.163.505
	44.447.034	47.746.412

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17. Long term borrowings (continued)

Loans amounting to ISK 43.603 are subject to terms related to the equity ratio. Of this amount, loans amounting to ISK 39.243 million are also subject to terms related to the ratio of net interest-bearing debt to EBITDA. The financial terms are reviewed periodically, and at the end of 2021, the terms of the ratio of net interest-bearing debt to EBITDA were not attained. All the creditors of the company had at the end of the year formally confirmed that they would not activate the financial terms for the time being.

18. Deferred tax liability (deferred tax assets)

	31.12.2021	31.12.2020
Balance at beginning of the year	299.665	2.054.905
Calculated income tax for the year	(1.476.997)	(1.751.330)
Income tax payable for the next year	(740)	(3.888)
Translation exchange difference	(20)	(22)
Balance at the end of the year	(1.178.092)	299.665

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

	31.12.2021	31.12.2020
Property, plant and equipment	2.345.065	2.319.987
Current assets	(430.559)	(449.589)
Other items	932	(13.556)
Exchange differences	7.296	(543.300)
Effect of carry forward income tax loss	(3.100.825)	(2.242.263)
	(1.178.092)	(928.722)
Deferred tax asset not recognised in the financial statements	0	1.228.387
Deferred tax liability (deferred tax asset) at the end of year	(1.178.092)	299.665

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 enterd into the accounts of the company. The carried-over claim at end of the year 2020 was, however, not entered into the accounts of the company due to uncertainty related to the impact of covid at that time.

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

	31.12.2021	31.12.2020
Available to the year 2030	11.165.417	11.211.317
Available to the year 2031	4.338.709	0
	15.504.126	11.211.317

19. Other financial liabilities

Accounts payable

	31.12.2021	31.12.2020
Domestic accounts payable	1.623.488	710.428
Domestic accounts payable - due to construction plan	1.931.502	642.193
Foreign accounts payable	245.979	277.671
	3.800.969	1.630.291

Domestic accounts payable due to the construction plan are because of the service agreement with the Ministry of Infrastructure, a part on construction. Payments for the year 2021, 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

	31.12.2021	31.12.2020
Loans from credit institutions	1.829.083	4.086.163

Notes

19. Other financial liabilities (continued)

Other current liabilities

	31.12.2021	31.12.2020
Value added tax, payable	38.369	25.504
Accrued additional contribution to pension fund	158.951	293.237
Salaries and related expenses payable	689.498	761.696
Accrued holiday commitment	1.485.646	1.334.115
Accrued interest, payable	307.136	456.368
Other liabilities	52.701	34.237
Deferred revenue	172.749	174.556
Unfinished construction contract	3.363	99.161
	2.908.413	3.178.873

20. Financial risk

Financial instruments

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

Financial assets	31.12.2021	31.12.2020
Cash and cash equivalents	14.682.766	9.372.336
Financial assets that are intended to hold to maturity	2.522.009	118.562
Loans and receivables	4.171.589	8.361.011

Financial liabilities	31.12.2021	31.12.2020
Other financial liabilities	50.583.704	51.925.389

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:

	31.12.2021		31.12.2020	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on profit or loss and other equity	(44.603)	(89.206)	(73.995)	(147.990)

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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.

	Year-end rate	
Currency	2021	2020
EUR	147,60	156,10
GBP	175,73	173,55
JPY	1,133	1,234
CHF	142,83	144,38
DKK	19,85	20,98
NOK	14,77	14,93
SEK	14,39	15,57
USD	130,38	127,21
CAD	102,42	99,91
HUF	0,40	0,43

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

Foreign currency risk 31.12.2020

	Assets	Liabilities	Net balance
EUR	6.575.546	40.830.990	(34.255.443)
GBP	625.115	7.964	617.151
JPY	1.656	0	1.656
CHF	682	0	682
DKK	139.312	22.557	116.754
NOK	2.001	678	1.323
SEK	8.011	90.907	(82.896)
USD	92.529	41.128	51.401
CAD	868	0	868
HUF	9.104	3.911	5.193

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	31.12.2021		31.12.2020	
	5%	10%	5%	10%
EUR	(1.499.040)	(2.998.080)	(1.370.218)	(2.740.435)
GBP	8.133	16.265	24.686	49.372
JPY	23	45	66	132
CHF	(531)	(1.061)	27	55
DKK	2.469	4.938	4.670	9.340
NOK	74	149	53	106
SED	(619)	(1.239)	(3.316)	(6.632)
USD	2.828	5.657	2.056	4.112
CAD	30	60	35	69
HUF	241	483	208	415

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.

	31.12.2021	31.12.2020
Bonds and other long term assets	2.522.009	118.562
Accounts receivables	3.310.396	2.606.353
Other receivables	861.192	5.754.658
Cash and cash equivalents	14.682.766	9.372.336
	21.376.364	17.851.909

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 31.12.2021				
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)

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Notes

20. Financial risk (continued)

	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2020				
Non-interest bearing	4.163.944	0	0	4.163.944
Floating interest rates	3.724.716	9.430.959	14.672.186	27.827.861
Fixed interest rates	376.479	3.065.786	16.491.319	19.933.584
	8.265.139	12.496.744	31.163.505	51.925.389
Assets 31.12.2020				
Non-interest bearing	8.484.199	0	0	8.484.199
Floating interest rates	9.249.149	118.562	0	9.367.710
	17.733.347	118.562	0	17.851.909
Net balance 31.12.2020	9.468.208	(12.378.182)	(31.163.505)	(34.073.479)

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 sued 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 compensation claimed is € 795 thousand (ISK 117 million). The bankruptcy estate's claim was accepted on December 3rd, 2021. The case has been appealed.

Note no. 15 contains information on a lawsuit where Isavia ohf. sued the owner of a Wow air aircraft and the Treasury. In addition, there are a number of lawsuits pending that the company considers 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.

Service agreements

Isavia ohf. has service agreements with the Ministry of Infrastructure for five years from 2019 on the provision of air navigation and airport services, as well as a contract for construction at domestic airports. Payment for domestic services and construction is determined according to the contract for one year at a time. Payments have not changed according to price changes as stipulated in the agreement and the operating payments has decreased in real value. The company must also respect international obligations that the Icelandic government has entered into on the basis of international agreements.

On the basis of the service agreement, the company provides air navigation services in international airspace, domestic airspace and the operation of airports, as well as the maintenance and development of domestic airports in accordance with government decisions at any given time. The company has an operating license without a time limit from the Icelandic Transport Authority for this operation and is subject to its conditions as they are at any given time.

Notes

22. Other obligations (continued)

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. The effect of COVID-19 pandemic on Isavia operation

The Covid epidemic still had a significant impact on Isavia's operations in 2021. Uncertainty over the development of the epidemic, flight restrictions and strict border control measures affected air traffic over the Icelandic airspace as well as having a major impact on the number of passengers at Keflavík Airport and domestic flights. International air traffic started slowly at the beginning of the year but increased steadily as the year progressed.

Air traffic within the Icelandic airspace was about 53% of air traffic in 2019 and passengers at Keflavík Airport were about 30% of the number of passengers in 2019. However, the decrease in passengers on domestic flights was less than on international flights or about 81% of passengers in 2019.

The company's owner decided to increase its share capital by ISK 15 billion to partially cover the damage caused by Covid-19 and enable the company, among other things, to continue the development of Keflavík Airport's infrastructure. In 2021, ISK 9 billion of the share capital pledge was redeemed and it is planned to redeem the rest or ISK 6 billion in 2022. The owner of the company will then have contributed a total of almost ISK 19 billion to the company since the beginning of the epidemic in the form of new share capital.

The company's plans assume that a low point has been reached in 2020 and the turnaround that began in 2021 will continue in 2022. It is therefore the opinion of the management that the company's going concern is strong and the company is well positioned to cope with future air traffic and passenger growth at the company's airports and in the Icelandic air traffic control area, as well as the infrastructure development that is planned to be launched at Keflavík Airport in the coming years.

24. Events after the reporting period

There are no subsequent events to be disclosed.

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 Innanlandsflugvellir ehf. The segment report provides information on the operations of Isavia Innanlandsflugvallar 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 10th, 2022.

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Consolidated Financial Statements of Isavia ohf. 2021 25 All amounts are in thousands of ISK

Notes

27. Consolidated ratios

From Statement of Comprehensive Income:	2021	2020
Profitability		
Earnings (loss) before interests, taxes, depreciation and amortisation (EBITDA)	(810.400)	(6.136.698)
a) Contribution margin on operation	(3,89%)	(41,64%)
b) Profit (loss) margin on operating revenue	1,54%	(89,42%)
c) Earning per share (EPS)	0,02	(1,38)
d) Return on equity	1,01%	(41,36%)

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

From Balance sheet:	31.12.2021	31.12.2020
Activity ratios		
e) Investment in inventories	0,02	0,02
f) Rate of return on assets	0,25	0,18
g) Inventory turnover	7,08	3,92
h) Receivables turnover	7,21	6,00

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

Liquidity ratios		
i) Quick or acid-test ratio	2,34	2,00
j) Current ratio	2,38	2,03
k) Net Interest Bearing Debts/EBITDA	(37,19)	(6,31)

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

Coverage ratios		
l) Equity ratio	41,52%	33,87%
m) Internal value of shares	1,97	2,85

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

From Cash flow:	2021	2020
n) Net cash debt coverage	0,07	(0,16)
o) Quality of sales	11,52	0,64
p) Quality of net profit	(0,32)	0,77

n) Cash flow from operat./Total liabilities
o) Paid in revenue/stated revenue
p) Cash flow from operat./net profit (-loss)

Operating expenses as percentage of revenues	2021	2020
Cost of goods sold/income from retail division	11,83%	11,58%
Salaries and related expenses/operating revenues	71,39%	99,44%
Administrative expenses/operating revenues	1,90%	2,36%
Other operating expenses/operating revenues	18,76%	28,26%
Depreciation and amortization/operating revenue	18,76%	26,58%
Operating expenses/operating revenues	122,65%	168,22%

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 Innanlandsflugvellir 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.

Keflavik airport

The organisation of Keflavík 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.

Fríhöfnin ehf. (Duty free store)

Revenue from Fríhöfnin 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 also other various revenues.

Lease income

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. The Consolidation is not a party to financing leases as a lessor.

Payment terms

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

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Consolidated Financial Statements of Isavia ohf. 2021 27 All amounts are in thousands of ISK

Notes

28. Summary of Significant Accounting Policies (continued)

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.

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.

Notes

28. Summary of Significant Accounting Policies (continued)

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.

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 intension 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 changes in an index or rate or when a lease contract is modified and the modification is not accounted for as a separate lease.

Notes

28. Summary of Significant Accounting Policies (continued)

Leases (continued)

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.

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.

Notes

28. Summary of Significant Accounting Policies (continued)

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.

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 2 there are information regarding each segment.

Within the income of segments are lease income that amounts ISK 2.862 million (2020: about 1.840 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 2021

	Isavia ANS ehf.	Isavia Innanlands-flugvellir ehf.	Isavia ohf.	Fríhöfnin ehf.	Other subsidiaries	Eliminations	Consolidated
	Air-navigation	Domestic Airports	Keflavik Airport				
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	7.063.463	2.637.667	8.411.260	5.235.919	1.287.865	(3.793.288)	20.842.888
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

Notes

29. Segment reporting (continued)

Segment information year 2020

	Isavia ANS ehf.	Isavia Innanlands-flugvellir ehf.	Isavia ohf.	Fríhöfnin ehf.	Other subsidiaries	Eliminations	Consolidated
	Air-navigation	Domestic Airports	Keflavik Airport	Duty Free Store	Others	Eliminations	Consolidated
Revenue							
External revenue	5.975.139	2.127.693	3.063.881	3.428.433	141.575		14.736.721
Inter-segment revenue	682.299	27.822	1.644.126	0	945.474	(3.299.722)	0
Total revenue	6.657.438	2.155.516	4.708.008	3.428.433	1.087.049	(3.299.722)	14.736.721
Income statement							
Operating profit	261.369	(378.808)	(9.372.192)	(606.391)	57.474	(14.977)	(10.053.525)
Net financial income / (expenses)	(96.995)	(65.182)	(4.725.776)	(34.492)	28.107	18.969	(4.875.371)
Profit before taxes	164.374	(443.990)	(14.097.969)	(640.884)	85.581	3.992	(14.928.895)
Profit for the year	131.499	(355.192)	(12.420.785)	(604.754)	68.472	3.194	(13.177.565)
Balance sheet							
Non-current assets	4.742.169	1.361.239	61.492.295	509.175	103.975	(5.969.592)	62.239.260
Other assets unallocated to segments	3.138.366	1.122.535	15.820.389	751.685	387.700	(2.983.043)	18.237.633
Total assets	7.880.535	2.483.774	77.312.684	1.260.860	491.675	(8.952.635)	80.476.893
Total liabilities	7.247.222	2.390.153	50.685.133	617.245	297.851	(8.020.064)	53.217.540
Equity	633.313	93.621	26.627.551	643.615	193.824	(932.571)	27.259.353
Other information							
Capital additions	598.072	48.602	2.721.144	8.921	3.832		3.380.571
Depreciation and amortization	338.806	126.634	3.310.475	255.823	37.910	(152.821)	3.916.827

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Consolidated Financial Statements of Isavia ohf. 2021 33 All amounts are in thousands of ISK

Apendix I Statement of Governance

The Statement of Governance is the statement of the Board of Directors for the past operating year of the Board of Directors 2021 - 2022 and is published together with the annual accounts for the calendar year 2021.

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. 60/1998. The governance of Isavia is based on Act No. 2/1995 on Private Limited Companies

The Board of the company regards in its activity the guidelines on governance and observes them in all important principles, even if the company is not obligated to follow such guidelines by law. 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.

Two subcommittees operate under the Board of the company, the audit committee and the emoluments committee. No rules of court have been made where the company's activities are considered to have violated laws or regulations.

Laws on the company can be accessed on the Althing'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.

Internal supervision and risk management

The Board has presented a comprehensive risk policy for the company and identified the main risk components in its operations. The Board of Isavia has approved the risk policy of the company. The risk policy covers the parent company as well as its subsidiaries. According to the risk policy, the comprehensive risk management is intended to ensure that risk is defined, that there is a co-ordinated process in place to handle risk, that the process is reviewed regularly and that the provision of information is periodic and describes the assessment of risk and risk-taking. See note 20.

The risk committee is in place and has the authority of the Board to determine, inter alia, the extent and nature of risk as well as profitability analysis for projects and tasks that can have a significant impact on the operation and assets of the company. The risk committee is composed of the CEO, the Deputy CEO as well as the CFO and Director of Human Resources.

PricewaterhouseCoopers ehf. manages the internal auditing of the company and evaluates risk assessment, supervision methods and governance with systematic methods and thereby helps the company attain its objectives. The internal audit unit is hired by the Board, operates independently and does not make decisions related to the daily operation of the company. Directors 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. All Board members are viewed as independent, as understood in the “Guidelines on Company 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 23 April 2021. 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 progress and ensure its long-term success, by setting the company a policy in collaboration with its management.

In the operating year 2021 - 2022, 11 board meetings were held. All board meetings were quorate and everyone attended most meetings. 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, Deputy CEO and Chief Financial Officer attend Board meetings. The Deputy CEO writes the minutes. Minutes are signed by the board, the CEO and the secretary.

Apendix I Statement of Governance

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. Such an evaluation of performance means, 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 performance evaluation of the board took place in March 2022.

The appointment of Isavia's board of directors 2020–2021

Orri Hauksson, born 1971, Chairman of the Board since 2019, MBA from Harvard Business School in Boston and mechanical engineer from the University of Iceland. Orri has been Síminn's CEO since 2013. He was previously CEO of SI, the Federation of Icelandic Industries, 2010-2013 and Investment Manager at Novator Partners 2007-2010. He was also the Managing Director of Síminn's Development Division from 2003-2007. He has also been the Sales Manager of Masking Software Inc. in Boston and an analyst in Eimskip's foreign division. Orri was an assistant to the Prime Minister from 1997-2000. Orri was elected to Isavia's Board of Directors at the 2019 Annual General Meeting and also sits on Isavia's Remuneration Committee. Orri is independent of Isavia, the day-to-day management of the company and its owner.
Other board positions:
Orri sits on the board of Fumorka ehf. and Augustson A / S

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 sits on the board of Isavia Innanlandsflugvallir ehf.

Eva Pandora Baldursdóttir, born 1990, board member since 2018, B.Sc. in Business Administration from the University of Iceland, MA in Cultural Management at Bifröst University and a diploma in Public Administration from the University of Iceland. Eva Pandora has worked as a specialist in the City of Reykjavík's Services and Innovation Department since 2021. She was a specialist in the Development Department of the Regional Development Institute 2017-2021, Member of Parliament for the Northwest constituency 2016–2017, business administrator at KPMG 2016, travel planner at Iceland Travel 2015–2016 and business administrator at Fjárvakur 2012– 2015. Eva Pandora was elected to Isavia's Board of Directors at the 2018 Annual General Meeting and sits on Isavia's Remuneration Committee. Eva Pandora is independent of Isavia, the day-to-day management of the company and its owner.
Other board positions:
Eva sits on the board of Isavia Innanlandsflugvallar ehf.

Nanna Margrét Gunnlaugsdóttir, born 1978, board member since 2018, business adminstrator with an MBA from Reykjavík University. Since 2015, Nanna has been the investment manager of Hafblik Investment Company. She was a consultant to foreign retail chains 2013-2014 for operations in Iceland, owner of the Natural Medicine Store and related companies in retail and wholesale 2008-2013 and worked for Eimskipafélag Íslands from 1998-2008, including in the treasury department and as sales manager in the sea and air freight department. Nanna Margrét was elected to the Board at the 2018 Annual General Meeting and sits on the Isavia Audit Committee. Nanna Margrét is independent of Isavia, the day-to-day management of the company and its owner.
Other board positions:
Nanna sits on the board of Fríhafnarinn ehf. and on the boards of Ilta Investment ehf., Ilta PE ehf. and Future Wave.

Valdimar Halldórsson, born 1973. Board member since 2018, BA in Economics and MSc in Business Administration from the University of Iceland. Self employed. From 2016-2021, Valdimar was the managing director of the Whale Museum in Húsavík and Norðursigling hf. in Húsavík. He was a consultant at HF Verðbréf 2013-2016, Assistant to the Minister of Industry and Innovation 2012-2013, specialist at Marko Partners 2011-2012, specialist at IFS Research 2008-11, specialist in Íslandsbanki's fisheries team 2004-2008 and at the National Economic Institute / Statistics Iceland, National Accounts 2000-2004. Valdimar was elected to the Board at the 2018 Annual General Meeting and also sits on Isavia's Audit Committee. Valdimar is independent of Isavia, the day-to-day management of the company and its owner.
Other board positions:
Valdimar is the chairman of the board of Fríhöfn ehf., sits in the boards of Stapi lífeyrissjóður, Fjárfestingarfélag Þingeyinga ehf., Veiðifélag Laxár og Krákár and Willa Franz ehf. and is an alternate in the board of Skúlagarður fasteignafélag.

Board alternates

Björg Eva Erlendsdóttir born 1960, BA in Icelandic, Norwegian and journalism, executive director of the Left Green Movement.
Hreiðar Eiríksson born 1963, lawyer, works at Fiskistofa Akureyri.
Ingveldur Sæmundsdóttir, born 1970, MBA, Assistant Minister of the Interior.
Óskar Þórmundsson, born 1950, former chief constable.
Sigrún Traustadóttir, born 1962, MBA, consultant. Was a main member of the board in 2014-17, an alternate from 2017.

Apendix I Statement of Governance

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 and is responsible to it and complies with the company's articles of association, laws and regulations.

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.

Internal control of the company's accounting process is intended to ensure that the information in the financial statements is adequate, covers important aspects and is presented in an impartial manner. The company's financial statements are prepared by the company's finance and human resources department in accordance with international accounting standards. The financial statements are reviewed by the company's management, the audit committee and the company's external auditors. Information on the company's accounting policies can be found in Note 28 to the financial statements.

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.

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, analyze 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.

Apendix I Statement of Governance

Social responsibility and ethical standards

The Isavia Group has a sustainability policy and has supported the UN Global Compact Convention since 2016. By doing so, it commits itself to policies and practices that are in line with the ten United Nations principles on Human Rights, Labor, the Environment and Anti-Corruption. The organization supports and works systematically on the United Nations Global Goals for Sustainable Development. The company's sustainability policy emphasizes a balance between the economy, the environment and society.

The company has established a code of conduct for the group's suppliers, which is set in accordance with the above ten main principles of the UN Global Compact. The companies' suppliers are required to comply with the Code of Ethics as a minimum standard and to make the same demands on their suppliers. The company should be notified if there is a suspicion that the criteria are not being followed. Upon request, suppliers must be able to confirm compliance with this Code. The company's agreements contain provisions on the prohibition of pseudo-contracting, and the employment relationship shall be a principle in communication between employees and contractors. This is done to ensure that all employee taxes, by whatever name they are called, are paid and that the provisions of wage agreements are complied with.

Isavia is guided by sustainability in everything the company does, including keeping the negative environmental impact of its operations to a minimum in harmony and co-operation with stakeholders. The company established an environmental policy in 2015 and has worked diligently towards the goals of the policy with an action plan in environmental and climate matters. Corporate social responsibility policy and environmental policy were merged under one sustainability policy at the end of 2021. At the same time, the company's action plan was updated to five years and the provisions on climate issues were sharpened in accordance with the relevant legislation. The plan sets out a number of measures that are intended to reduce the negative environmental impact of the company's operations. The action plan is valid until the end of 2026. The establishment of an environmental management system according to the international standard ISO14001 and its certification in 2021. Keflavík Airport is a participant in a carbon certification system run by the International Airport Association (ACI), called Airport Carbon Accreditation (ACA).

Isavia has been working systematically for years to promote gender equality and first received equal pay certification in 2018 and again in 2021, which has been confirmed by the Gender Equality Agency. In parallel with the certification last year, a wage analysis was carried out which revealed that there is no unexplained gender pay gap at Isavia. In 2021, the company's action plan for gender equality was also revised and the plan was approved by the Gender Equality Agency in the middle of the year. The plan aims to ensure equal opportunities for all genders at the company.

Isavia has a code of conduct that was recently updated. They cover all employees and managers of all companies within the group and are part of their employment contracts.

The company ensures a certain level of protection for employees who report violations of the law or other reprehensible conduct in the operation, according to Act no. 40/2020, on the protection of whistleblowers. An employee who has information or data on breaches of law or other reprehensible conduct in the group's operations must report this. A process has been put in place to make it easier for employees to provide such information anonymously through the company's website.

Isavia has submitted a sustainable report as part of the company's annual report since 2016. The report follows the criteria of the Global Reporting Initiative (GRI) as well as special provisions on airports. The report is submitted to the GRI database and to the United Nations as an annual progress report on sustainably to UN Global.

Apendix 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 2021: Isavia Innanlandsflugvellir ehf. which handles the operation of airports for domestic flights and landing sites in Iceland, Fríhöfnin 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 the service of air traffic controllers in Greenland. Tern Systems ehf. owns one subsidiary which is also a software company which is Tern Branch Hungary.

Isavia 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 with 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.

Sustainability and community responsibility

The consolidated Isavia group pursues a policy of social responsibility and has supported the UN Global Compact of 2016. The company thereby commits itself to pursue a policy and practice in pursuit of the ten criteria of the United Nations on human rights, labour, the environment and anti-corruption. Isavia supports the UN Global Goals on sustainable development and works on attaining its objectives. The company’s policy of social responsibility emphasises a balance between the economy, the environment and the community, with sustainability as a guideline.

The codes of conduct for the suppliers of Isavia and its subsidiaries are set in accordance with the ten criteria of the UN Global Compact. Suppliers of the company are required to meet the guidelines as a minimum and they must impose the same demands on their suppliers. A suspicion of the infraction of these guidelines needs to be reported to Isavia. If requested, suppliers need to confirm that they adhere to the guidelines. The contracts of the company contain provisions for a ban on artificial contracting and stipulates that a hiring relationship shall be the main rule in interactions between the staff and contracting vendor. This is done to ensure that all wage-related payments, whatever their name, be paid and that wage agreements are adhered to.

Environmental issues

Isavia uses the guideline that adverse environmental impacts be kept to a minimum, in concert and co-operation with economic actors. The company laid down an environmental policy in 2015 and has diligently worked towards the goal of that policy with an environmental and air quality action plan. The year 2021 was a new policy in sustainability made from two former policies in environment and community responsibility. At the same time, an action plan for Isavia ohf. for the next five years, is being updated and also an action plan is in progess for the subsidiaries which will finish in year 2022. The plan presents a number of measures intended to reduce the adverse impact of Isavia’s activity. The plan applies to the end of 2022. The plan sets out a number of measures to reduce the negative environmental impact of Isavia's operations. The action plan is valid until the end of 2026.

Work is finished establishing an environmental governance system according to the ISO14001 standard for Keflavik airport. Keflavík Airport participates in the Airport Carbon Accreditation (ACA) System of the Airports Council International (ACI).

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 business 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 has been carbon offsetting its fuel consumption for the past four years.

Human resources

Isavia endeavours to be a sought-after workplace, and the company emphasises a good work environment and staff enjoyment.

Isavia has been working systematically for years to promote gender equality and first received equal pay certification in 2018 and again in 2021, which has been confirmed by the Gender Equality Agency. In parallel with the certification last year, a wage analysis was carried out which revealed that there is no unexplained gender pay gap at Isavia. In 2021, the company's action plan for gender equality was also revised and the plan was approved by the Gender Equality Agency in the middle of the year. The plan aims to ensure equal opportunities for all genders at the company.

Apendix II Non-financial disclosure

Human resources (continued)

Isavia pursues an equality policy aimed at improving work satisfaction and morale. The purpose of the equality policy is to ensure equality in full and equal rights of both genders.

The board of directors of Isavia has confirmed the group's new Code of Conduct which applies to all its operations. All employees sign the code at the same time as signing the employment contract, but it is also accessible on Isavia's external and internal website.

At the end of 2021, the board of Isavia approved a new and updated response plan for bullying, gender-based and sexual harassment and violence (EKKO). The plan is set on the basis of act no. 46/1980 on working conditions, hygiene and safety at work and regulation no. 1009/2015 on measures against harassment, sexual harassment, gender-based harassment and violence in the workplace. The plan covers all Isavia's and subsidiaries' offices and applies equally to employees, managers and contractors who work for the Group or for other service providers at Isavia's offices.

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 group's goal to eradicate such behaviour through preventive measures in the form of education and through professional procedures.

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.

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. The management manages the risk of the company in accordance with the risk-tolerance of Isavia as set by the Board. Risk tolerance, i.e. the limits of acceptable deviation from goals, is defined in policy documents, work rules, manuals and regulations pertaining to the company.

Key criteria

In order to determine the most important factors in the field of sustainability, the major economic actors were interviewed inside and outside the company to assess which issues they consider most important in their co-operation with the company and how one should meet their expectations on the dissemination of information. The economic actors of the company have been defined into five groups, i.e. clients, staff, public authorities, suppliers and the community.

The company diligently works on all the aspects considered most important for its economic actors. The most important factors were: safety and workplace security, purchases and the value chain, carbon footprint and air quality, community interaction and development, a financially sustainable operation, a service of value and efficacy, human resources, sound protection, digital technology and automation. At the beginning of 2022, this importance analysis was updated as is expected to be done regularly according to the GRI criteria.

In addition to viewing the remarks of outside actors, the setting of goals in 2021 had regard to the company’s policy and its various commitments. The goals are related to nine of seventeen global goals. The work took place with representatives of the staff from all the areas of the company. The proposals of the working parties were forwarded to the CEO and the Executive Directors for approval and for an introduction to the Board.

Goal 1: Steadily reduce the number of accidents in Isavia’s workplace. Accidents reported declined between years from 39 to 31, of which serious accidents (leading to absences) to 4 years.

Goal 2: Ensure the equal participation of genders in management positions before 2025. Management tier one: 37%/63%; tier two: 55%/45%; tier three: 69%/31%.

Goal 3: Draw up a comprehensive approach to risk management so as to ensure that it comprises community responsibility. Work has begun on the risk of climate change on the infrastructure of Keflavík Airport.

Goal 4: Improve the efficacy of surveying Isavia’s procurement. Reference is made to ethics rules and community responsibility in all tender and contract documents of the consolidated group. Moreover, work is under way to have all suppliers of the company sign a supplier code of ethics; more than 60% of registered suppliers have already signed.

Goal 5: The proportion of sorted waste will be 40% in 2020, 55% in 2025 and 70% in 2030. The proportion of sorted waste was 37% in 2021. The proportion went from 41% to 37% between years as waste from fuel separators for two years entered the figures in 2021.

Goal 6: Greenhouse gas emissions have decreased by 40% in 2020, 50% in 2025 and 60% in 2030 since 2015. Emissions at Isavia had decreased by 39% by the end of 2021. The proportion was 34% in 2020 but the result in 2021 can be traced for reduced fuel consumption at Keflavík Airport.

Apendix II Non-financial disclosure

Key criteria (continued)

Goal 7: Determined and co-ordinated interaction with the external actors of the company. Joint policy formation with the four municipalities in the Suðurnes area, Kadeco and the Association of the Suðurnes Municipalities is well underway, and co-operative projects are beginning. A co-operative platform has been established with selected economic actors at Keflavík Airport to work on joint projects with the aim of sustainability.

Goal 8: Improve the consciousness of the importance of community responsibility of the company. The Board and the management have been introduced to this topic.

The annual and community 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 and community report of the company each year as a progress report to the UN Global Compact and Global Reporting Initiative. The report is issued for the sixth time in this manner.

Further information on the non-financial issues of the company may be found in the Isavia annual and community report at: isavia.is/arsskyrsla 2021.

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