isavia

Annual Report

2015

The logo refers to the form of a Viking ship stem and the tail fin of an aircraft, linking the Icelandic heritage with the present.

The lines in the logo invoke a connection to nature, by reminding one of a volcano, a river bed and air currents – modes of transport in past and present. The lines also depict the layered flight routes on which air traffic is based, Isavia´s vision and policy and how Iceland is the nexus between three continents.

Contents

Layout and design:
Hvíta húsið

The electronic version of this annual report is available at www.isavia.is/annualreport

Chairman's Statement

Ingimundur Sigurpálsson,
Chairman of the Board

Extensive Growth

The limited liability company Isavia was founded in 2010 and its growth in the years since has been remarkable. The group's operating income in 2010 was ISK 14.1 billion and cash from operating activities was approx. ISK 1.6 billion. In that year, the average number of employees was 707 and wages and related expenses stood at ISK 6.2 billion. In 2015, the group's total income was about ISK 26 billion and cash from operating activities about ISK 6.3 billion. The equity ratio at year-end 2010 was 24.6%, compared to 44.6% at year-end 2015. The average number of employees was 1,017 and wages and related expenses totalled ISK 11.0 billion. In the just over five years that Isavia has operated as a limited liability company, income has thus increased by 84%, equity ratio almost doubled, cash from operating activities almost quadrupled, and wages and related expenses increased by 78%.

Isavia's turnover makes it one of Iceland's 35 biggest companies, according to the magazine *Frjáls verslun* in summer 2015, and the second largest in the tourism sector. These dramatic changes in operations are a reflection of the growth in the Icelandic tourism industry, growth which seems likely to continue in the near future.

The newly revised passenger forecast for Keflavík Airport provides for just under 6.7 million passengers in 2016, which corresponds to a 37% increase from the previous year. The number of transit passengers is estimated at 2.3 million, which is a 51% increase from the previous year. By way of comparison, the current number of transit passengers almost equals the total number of passengers through Keflavik Airport in 2011. A total of 25 airlines will have scheduled flights to Keflavík Airport from 80 places in the coming summer.

This great increase in passengers, particularly transit passengers, creates many challenges for the company. We will of course try to meet these challenges as best we can. That is why we are now working on the biggest expansion of the terminal since its inauguration in 1987, and we are constantly finding ways to further improve the utilisation of our current facilities. There are now approximately 17,000 square metres of new facilities under construction. 10,000 will be brought into use in 2016 and a further 7,000 in 2017. In 2017, the terminal will therefore total 72,900 square metres and will be Iceland's largest installation public. Besides expanding the buildings, the aircraft parking aprons have been expanded to increase capacity.

Daily traffic peaks when the airlines Icelandair and Wow Air connect passengers between Europe and North-America, but between these periods of high traffic, the airport's facilities are under-used. With better utilisation of the airport and increased traffic between the peak periods, the airport could accomodate up to 10 million passengers annually, once the current extensions have been completed. This is the number of passengers estimated in the development plan for the year 2020.

Keflavík Airport Developmental Plan: Greeting the Future

In 2015, work was completed on a Master Plan, which addresses the development of the airport in light of traffic and passenger forecasts. It includes the airport's land-use plan, terminal plan and environmental action plan and will be of use to all stakeholders in their decision making as regards investments and planning, with the twin beacons of economy and environmentally friendly development.

Keflavík Airport's developmental strategy encompasses a vision for development to 2040. The terminal will expand to the north and will total 140,000 square metres in 2032 — more than double the current size. Preparations are already underway and the first part of the expansion could be ready in 2022. It is clear that the large-scale and costly developments dictated by the plan do not, in and of themselves, suffice to keep up with the great increase in passenger traffic estimated for peak hours. There will, however, be room for growth outside these peak hours and airlines are expected to make better use of the current and future resources available during these periods. Better utilisation also brings a chance to increase the profitability of flight-related operations, to be used for further development, and keep user fees within acceptable limits.

According to the development plan, the terminal will double in size.

Air Navigation at a Turning Point

In 2015, a total of 145,891 aircraft passed through the Iceland air traffic area, which is an 11.5% increase from 2014. Average daily traffic in 2015 was 400 aircraft, 42 more than the 358 aircraft in 2014. Over ten years, the average daily traffic has increased by 60%, from 249 to 400 aircraft. The total number of flown kilometres in the Icelandic flight zone was 210 million in 2015, which is a 12.4% increase from 2014. To meet this considerable increase in operations, 2016 will see the opening of a 2800 square metre annex to the Reykjavik Area Control Centre. The new facilities will meet the increased number of employees and bring together all air navigation services, currently operated in four locations in Reykjavik, under one roof.

The majority of air traffic through the Reykjavik control area is overflights, serviced by Isavia on the basis of an agreement with the International Civil Aviation Organisation. Part of the agreement extends to air navigation services over Greenland and the Faroe Islands and Isavia has collaborated successfully with authorities in these neighbouring countries. Controlers handle a third of all air traffic over the North Atlantic in an area of approximately 5.4 million square kilometres. These operations are very important for the Icelandic economy, providing 300 highly paid specialised jobs, in addition to derivate operations, and generating an annual foreign currency revenue of ISK 5.8 billion.

A sunny day at Akureyri Airport.

From the formal opening of Keflavík Airport's redesigned shopping area.

Domestic Airports Development

Isavia has operated Icelandic airports from its founding. The operation of Keflavík Airport has been sustainable in recent years, but all other Icelandic airports have been operated in accordance with a service agreement between Isavia and the Ministry of the Interior. Funds for the operation of domestic airports are allocated in each year's national budget. Since the founding of Isavia, contributions have decrased and the company has, in turn, had to make significant cost reductions in the operations of these airports. The service agreements are short-term, which means that the operation and status of domestic airports, as part of Iceland's public transport system, has been uncertain.

In recent years, the service agreements have mostly covered the direct operational costs of domestic airports, but funds have been lacking for necessary investments in machinery, equipment and facilities. Contributions for facility maintenance have been considerably lower than estimates call for and there is grave need for maintenance in many places. It is estimated that at least ISK 600 million is needed annually to maintain the domestic airports.

There is reason to call attention to developments in domestic passenger traffic, as the number of passengers has decreased in recent years. Although 2015 saw a 2.5% increase from the previous year it is clear that the development of passenger numbers on domestic flights has not been in line with increased tourism in Iceland. It is also clear that Icelanders use this mode of travel less frequently. There are various reasons for this development, but it is likely that uncertainty regarding the future of domestic flights and Reykjavik Airport is a contributing factor. In order to develop economically feasible domestic flights, deal with the estimated number of tourists in coming years and enable tourists to travel around the country, a clear policy for the development of Icelandic transport systems over the next thirty years is needed. The need to improve Iceland's road system in order to deal with the increasing number of tourists is frequently addressed, but it would be more logical to view the transport system as a whole, of which domestic airports are a vital part.

Uncertainty regarding the operation and development of domestic airports deters potential investors from participating in the funding of airport installations and it has proven difficult to provide necessary facilities. It is important to form a clear policy for the role of air travel in Iceland's transport system. This is a prerequisite for securing more funds to improve facilities for both flight operators and passengers.

Demanding Work Environment

Traffic though Keflavík Airport has tripled since 2010. Such an increase calls for widespread operational changes and extensive, time-consuming development of equipment and facilities. Last summer, company staff had to deal with a near-unprecedented increase in passenger traffic, an increase that greatly exceeded estimates. This called for a swift response in hiring and training new staff and while new long-term developments were prepared and planned, steps were taken to meet the added increase in passenger numbers. Despite the unavoidable growing pains attendant to such changes, the results have been considerably better than expected, considering the circumstances. Isavia employees are to be commended for their hard work and outstanding performance under these demanding conditions. Carriers and operators at Keflavík Airport must also be thanked for their successful cooperation on the various extensive issues inevitably raised by such a great and surge. All this work has contributed to the dynamic growth in the tourism sector, which has greatly increased foreign currency revenue for Iceland and will presumably continue to do so in the near future.

Isavia is responsible for the operation of important airport facilities and extensive services to flight operators and passengers. Highly qualified and ambitious employees are vital in order to run the company successfully and provide its customers with quality service. Comments by Isavia customers and acknowledgements by international review bodies are evidence of our staff's success, but it is also important to react swiftly and efficiently to proposals for improvement. On behalf of Isavia's Board, I thank the company's Managing Director, management and staff for their outstanding work under difficult conditions in 2015.

Operating Divisions

Isavia consists of four core divisions that manage the company's core operations: Air Navigation Services Division, Airport Division, Keflavík International Airport and the Leifur Eiríksson Air Terminal. Isavia's support divisions are also four in number: Development and Administration, Human Resources and Performance, Finance, and Standards and Quality Management. The directors of Isavia's core divisions and support divisions form the company's executive committee together with Björn Óli Hauksson, the Managing Director.

Björn Óli Hauksson, Managing Director

Elín Árnadóttir, Deputy Managing Director and Director of Development and Administration.

Hlynur Sigurðsson, director of Leifur Eiríksson Air Terminal

Sigurður Ólafsson, Director of Human Resources and Performance Division

Þröstur Söring, Director of Keflavík International Airport

Helga R. Eyjólfsdóttir, Safety and Quality Manager

Ásgeir Pálsson, Director of Air Navigation Services Division

Sveinbjörn Indriðason, Director of Finance

Jón Karl Ólafsson, Director of Airports Division

The Air Navigation Services Division provides air navigation services for domestic and international flights in the northern part of the North Atlantic Ocean. The Icelandic control area is one of the largest in the world, covering approximately 5.4 million km^2.

The Airport and Infrastructure Division is responsible for the operation and maintenance of alldomestic airports and landing strips outside Keflavík International Airport, including runways and other structures, lights and machinery as well as aviation security.

The operation of **Keflavík International Airport** involves the daily operation, monitoring and maintenance of aircraft operating areas and other airport facilities, operations of fire and rescue services, operation of vehicle and machine maintenace, the airport's visual navigation equipment and jet aircraft arresting gear, keeping birds and other animals away, apron management, slot allocation, cleaning the airport and aviation security.

The Leifur Eiríksson Air Terminal is responsible for the operation, maintenance and development of the air terminal, the operation of stores offering duty-free goods, business development, support of aircraft operation and other operations that are required within the airport security-restricted area. The division also manages work projects at Keflavík International Airport.

Development and Administration provides support to the Board of Directors, the Managing Director and operating divisions. Its tasks involve policy formulation and coordination of the operating divisions, including marketing and corporate communications, legal affairs and corporate governance, government relations, planning, international obligations, the coordination of aviation security and airports, document and task management, as well as administrative work relating to the boards of subsidiaries.

Human Resources and Performance manages HR functions, including professional development, training and education, occupational safety and health, payroll processing, wage agreements, internal communications, strategy implementation and performance evaluation.

The Finance Division operates across all the operating divisions, providing them with a wide range of administrative, accounting, treasury management and funding support, as well as purchasing and IT services.

The Standards and Quality Management division operates in connection with Development and Administration and handles the overall planning and coordination of the company's safety and quality program together with environmental issues and aviation security control.

New brand identity

Isavia's operations have been combined under a single logo, while over the past five years, the company has operated under two logos: Keflavík International Airport and Isavia. We have now completed comprehensive work on the company's policy formulation and future vision and the company has gained a new and harmonised image.

Part of a Pleasant Journey

While forming Isavia's new brand strategy, great emphasis was placed on defining the company's core operations and drawing out the unifying factors of various departments. Isavia is first and foremost a service provider in airport operations and air navigation services, and its role is to provide a basis for air travel in Iceland. Isavia staff are involved in the safe travel of over 30 million passengers each year, including all traffic passing through the company's airports and air traffic control area. Isavia is determined to provide service of the highest quality and contribute to the pleasant journey of these passengers, both domestically and abroad. The company's vision is for Iceland to be the centre of flights between three continents, Europe, North-America and Asia, thus contributing to Iceland's continuing status as an interesting tourist destination.

Connecting Three Continents

The new brand logo manifests Isavia's vision of Iceland as a hub for flights between three continents. The lines in the logo refer to how Iceland connects air traffic across the North Atlantic and the layered flight routes on which air traffic is based. Keflavík Airport is already an important link in transatlantic traffic and the Icelandic air traffic control area connects air traffic between the three continents. The logo also references Isavia's operations, in the form of tail fin of an aircraft and the stem of a Viking ship and thereby linking the travel modes that have been of the greatest importance to Icelanders over the centuries. Icelanders have used both these modes of transport to travel from Iceland to America and Europe, and they have been the lifeblood and foundation of the nation's economy.

Powerful Marketing of All Airports

The advantages of the new combined image are numerous. It will now be possible to market the international airports operated by the company — Keflavík, Akureyri and Egilsstaðir Airports — together. The extensive work already carried out in marketing Keflavík will thus strengthen the company's marketing of Akureyri and Egilsstaðir International Airports.

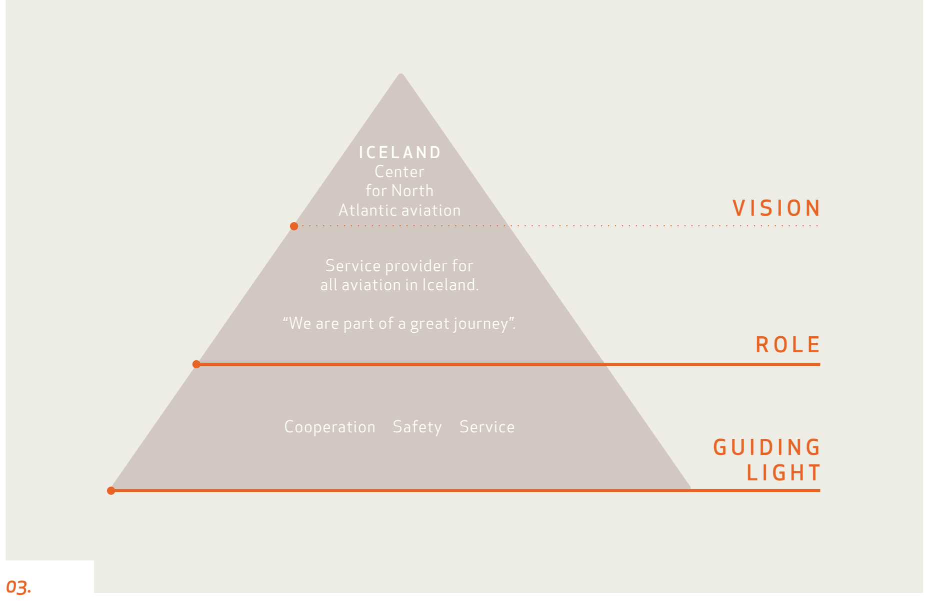
Isavia is one of Iceland's leading tourism companies and one of the goals of the new combined logo is to increase the awareness of foreign visitors of domestic air travel, which will have a positive effect on passenger number in all of Isavia's airports. The plan is to combine the websites of Isavia and Keflavik Airport into one dynamic website, which will better serve passengers. Around 1.5 million people visit Keflavík Airport's website annually, and once the combined website is ready, these people will find it much easier to see what the domestic flights system has to offer.

Active Participation of Personnel

The work behind the new image of Isavia has for the most part been carried out over the past two years. Around 120 Isavia employees participated in the work, and contributed significantly to the project. A total of 22 presentations for Isavia employees were held around the country before the new brand logo was unveiled. A competition for branding material was held among members of the Association of Icelandic Advertising Agencies (SÍA) and five proposals were received. The winning proposal was produced by the advertising agancy Hvíta húsið (The White House).

01.

02.



03.

01–02. Over 600 employees attended presentations of the new image and combined brand logo.

03. Isavia's brand strategy.

04. Isavia's four international airports now carry their own name under the same logo.

05–06. Isavia's logo suggests the tail fin of an aircraft and the stem of a Vkiking ship.

07. The orange colour connotes warmth and joyfulness. This earthy colour is abundant in Icelandic nature.

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Snapshots from 2015


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01. A number of new destinations were added during the year, including Wow Air's USA flights. This was cause for celebration at the Keflavik Air Terminal.

02. The travel agency Nazar organised four flights from Akureyri Airport to sunny Turkey.

03. An agreement was signed for international flights between Egilsstaðir Airport and London Gatwick. Flights will commence in the summer of 2016.

04. The air navigation services became the first European air navigation operator to implement ADS-B service. There was record traffic in the Icelandic air traffic control area in 2015.

05. Keflavík International Airport was named best airport in Europe in a survey of services conducted among passengers at all the world's leading airports. To celebrate, airport staff received a surprise.

06. Keflavik Airport participated in the Mid-Atlantic Tradeshow in March and had a booth decorated in line with the look of the terminal's new shopping area.

07. The four millionth passenger in 2015 was greeted with flowers and gifts in the shopping area.

08. Isavia and subsidiary, Tern Systems, participated in the World ATM Congress in March and their representatives came fully prepared!

09. Isavia was awarded PWC's gold medal in the company's equal wage audit in 2015.

10. Isavia's employees were greeted upon their return from the Special Olympics in Los Angeles, where they performed admirably.

Key Figures

From balance sheet	2015	2014	2013	2012	2011
Income	26,013	22,079	19,810	18,397	16,511
EBITDA	6,008	4,906	4,470	3,823	3,653
EBIT	3,999	3,328	2,818	2,396	2,302
Financial income/expenses	-181	-605	1,200	-1,465	-1,542
Profit before taxes	3,818	2,724	4,018	932	760
Operating profits	3,062	2,197	3,217	738	604

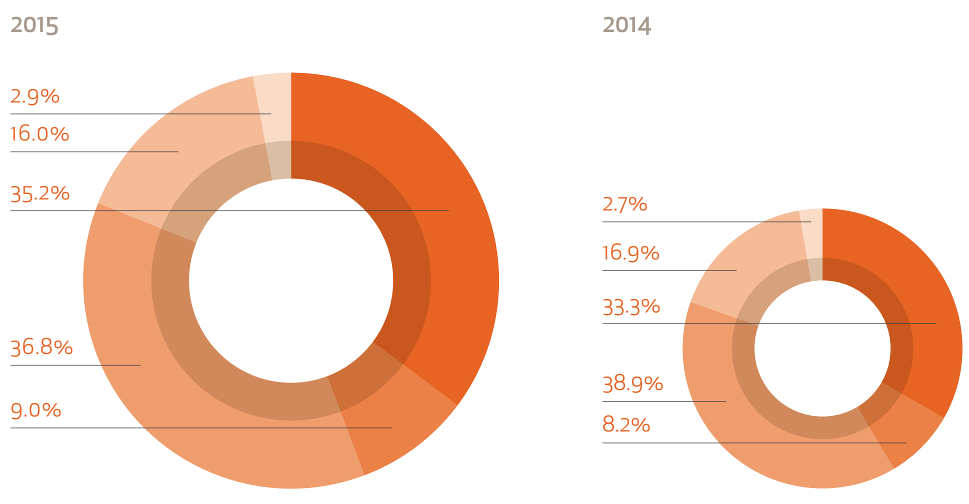
From statement of financial position					
Property, plant and equipment	31,425	25,715	23,179	21,784	21,615
Assets	45,187	40,849	34,511	33,390	32,520
Equity	20,134	17,061	14,864	11,647	10,917
Interest-bearing liabilities	17,547	17,900	14,609	17,397	17,728
Current ratio	1.30	1.91	1.24	1.26	1.21

From statement of cash flows					
Operating activities	6,326	4,628	4,032	3,535	3,545
Investing activities	-5,747	-5,754	-2,966	-1,730	-725
Financing activities	67	2,857	-1,324	-1,362	-1,721
Cash and cash equivalents at end of period	4,994	4,491	2,730	3,026	2,609

Financial ratios					
Contribution margin	23%	22%	23%	21%	22%
Profit margin	12%	10%	16%	4%	4%
Rate of return on assets	0.60	0.59	0.58	0.56	0.51
Return on equity	17%	14%	24%	7%	6%
Earnings per share	0.55	0.39	0.58	0.13	0.11
Equity ratio	45%	42%	43%	35%	34%
Average number of positions	1017	914	848	790	729

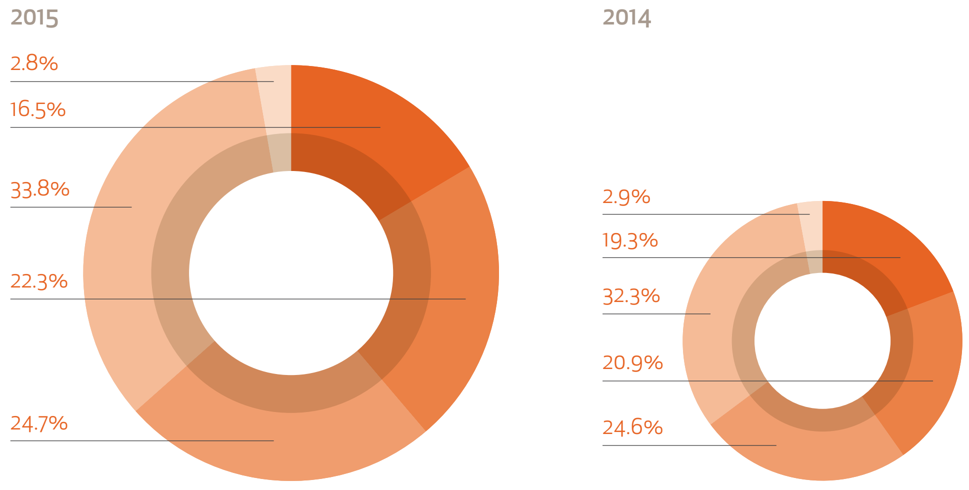
Total income

- Income from airport services
- Property income
- Sales
- Income from international air navigation services
- Other revenue



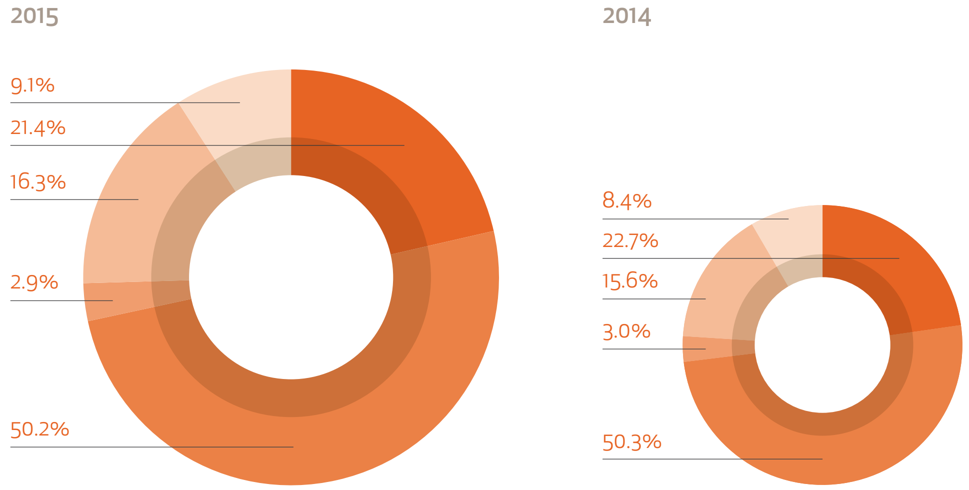
Income from airport services

- Service agreement with the Ministry of the Interior
- Landing charges
- Airport security fees
- Passenger fees
- Other fees



Operating expenses

- Cost of goods sold
- Salaries and other personnel expenses
- Administrative expenses
- Other operating expenses
- Depreciation



Operations and Performance

Björn Óli Hauksson,
Managing Director of Isavia

Isavia performed well in 2015 as it has in previous years. Isavia Group's total operating revenues amounted to ISK 26 billion, which is an increase of 18%, or approx. ISK 4 million, from the year before. This increase can mostly be traced to Keflavík International, where passengers increased by 25.5%. This increase in passenger numbers resulted in revenues from airport operations rising by 31% while revenue from non-flight-related activities, including retail and catering rose by 12% from the previous year. The reason for retail income not being in line with the increase in passenger numbers is mostly due to the extensive construction work that took place in the airport's shopping area during the first half of the year.

In addition, there was a considerable increase in air traffic through the Icelandic air traffic control area, i.e. approximately 12.5% between years, which resulted in an approx. 8% increase in revenue. Payments from the government, pursuant to the service agreement with the Ministry of the Interior, also increased by 7%. The service agreement is for operations that Isavia carries out for the Icelandic State, including the domestic flights system.

An Unprecedented Increase in International Passengers

The total number of passengers at Keflavík Airport was 4,855,505, an increase of 988,087 passengers (25.5%). In total, the number of passengers has increased from just over to two million to almost five million since Isavia's founding in 2010. According to estimates, the number will reach 6.7 million in 2016. Such an increase is unheard-of in comparable European airports. It is especially worth noting that departing passengers increased by 335,493. These passengers make the most of use of services in the terminal and are the main source of Isavia's non-flight-related income. At other Icelandic airports, operated by the company according to its service agreement with the Government, passengers increased by 2.5%. The increase in domestic passengers is a very positive development, as passenger numbers decreased each year from 2011 to 2015.

Continued Good Operating Results

Operating results before financial items in 2015 amounted to ISK 4 billion, as compared to ISK 3.3 billion the year before. The average number of jobs with the Group increased by 11% and numbered 1,017 in 2015, as opposed to 914 in 2014. Thereof, the average number of positions in the parent company was 807 (12.0% increase), 161 in the Duty-Free Store (5.6% increase) and 49 at Tern (14.0% increase).

The overall results for 2015 were positive to the tune of ISK 3.1 billion, which is an approximately ISK 876 million improvement on 2014. This difference is partly due to the exchange rate effects of foreign long-term loans but can mainly be traced directly to the Group's improved operational results. These positive results are vital, as they enable the company to continue the ongoing developments at Keflavík Airport and which airport patrons require.

Considerable Investments at Keflavík Airport

The total consolidated assets amounted to ISK 45.2 billion at year-end 2015, of which ISK 37 billion is from tangible and intangible assets. In total, investments in property, plant and equipment amounted to ISK 7.5 billion, of which ISK 6.5 billion can be attributed to investments in Keflavík Airport. The consolidated equity ratio was 44.6% at the end of 2015, as compared to 41.8% the previous year. Cash and cash equivalents at year-end 2015 were approx. ISK 5 billion.

The operation of the consolidated company has continued to provide positive cash flows, with net cash provided by operating activities in 2015 amounting to ISK 6.3 billion, an increase of approximately ISK 1.7 billion on the same period last year.

Close to a Billion to the State in the Form of Hard Tax Revenue

In 2016, the Isavia Group will pay approx. ISK 481 million in income tax. In addition, the Duty-Free Store paid approximately ISK 452 million in tobacco and alcohol fees to the Treasury. The store has thereby paid a total of ISK 1.8 billion since 2011 in the form of said fees. Isavia's total tax payments in the last year amounted to ISK 5.2 billion, increasing from ISK 4.4 billion in 2014.

More than 30 Million Journeys

Receiving so many passengers at Iceland's airports and carrying so many passengers across the Icelandic air traffic control area does not happen by itself. This is the result of the tireless efforts of Isavia's staff, who have done tremendous work during the year and are determined to be part of the successful journey of the more than 30 million passengers touched in one way or another by our activities. According to our estimates, the journeys with which we are involved will only increase. Approximately 146,000 aircraft passed through our air traffic control area in the last year. Most of these were jets with over 250 passengers, so it is likely that the individual journeys will greatly exceed 30 million in the year ahead.

For the past two years, much work has been done in-house to define our operations and formulate the company's long-term policy. Part of this work is the new, integrated image for air navigation, Keflavík International Airport, domestic airports and support divisions. We have the long-term aim of marketing our services,under one brand logo and utilising our achievements in the marketing of Keflavík Airport to introduce Akureyri Airport and Egilsstaðir Airport to foreign airlines interested in international flights to Iceland.

Abundant opportunities for ourselves and this nation in the projected increase in passenger numbers, as tourism has now become the nation's most important foreign currency generating asset and its importance is continually increasing. However, this increase also poses great challenges in the development of infrastructure at Keflavík, as well as at tourist destinations around the country. Enormous investment is needed in order to accommodate more tourists. We have undertaken extensive developments in recent years, with more planned in the future. We do have to be diligent, however, as we are not looking for short-term advantages. We want to take permant measures in order to support this new sector of the Icelandic economy. It is therefore advisable to be careful and prepare thoroughly.

Finally, I wish to thank the staff for a very good year and the excellent work that has made the year's 30 million safe journeys possible.

Björn Óli Hauksson,
Managing Director

Isavia in the Community

01.

Environmental Issues

Isavia works actively and consistently in accordance with the company's environmental policy, available on the company's website.

Environmental Management (ISO14001)

Work on the ISO14001 certification of selected Isavia airports is well underway. Environmental assessments of the company's airports in Keflavík, Reykjavik, Akureyri and Egilsstaðir have already been carried out, where important environmental factors in Isavia's operations were defined, their impact on the environment evaluated and an action plan presented to monitor and control these environmental factors.

Airport Carbon Accreditation

Airports Council International (ACI) has a joint management programme to reduce carbon emissions at airports. Keflavík International Airport is a participant and is completing the first step in the airport's Airport Carbon Accreditation. This entails an assessment of the environmental impact of airport operations and mapping of the carbon footprint of operations.

Climate Action

The Managing Director of Isavia signed a statement on climate action that Reykjavik City and Festa, the Icelandic Centre for Corporate Social Responsibility, presented last November and was signed by over one hundred companies. The statement is intended as an incentive for operators to reduce greenhouse gas emissions and thus demonstrate initiative and responsibility towards the environment and society. Representatives of the companies are now collaborating on measurements for their operations and setting goals to reduce the emission of greenhouse gases up to 2030. Isavia will present its first green accounting in spring 2016.

Green Steps

Isavia participates in the project "Green Steps", which the Ministry of Environment is in charge of, and which focuses on systematically promoting environmentally friendly business operations. A competition was held among operating departments on which is the first to comply with all of Isavia's green steps. The first operating departments have now completed the first step and the first environmental trophy has been awarded.

Grænás Encourages Recycling

With great developments under way and more planned, it is important to be aware of the possibility of recycling material. Keflavík Airport's warehouse at Grænás receives furnishings and useable building materials from the renovations in the Leifur Eiríksson Terminal and other airport facilities. Furnishings are reused if spare parts are needed or sent to other locations around the country.

Air Navigation Services Division Works on Reducing Emissions

Isavia is the first European air navigation operator to adopt ADS-B surveillence technology in international air space. With advanced technology and less seperation, flexibility in selecting flight routes between Europe and North-America can be greatly increased. ADS-B technology is based on GPS data and gives more accurate and faster information on the location of aircraft than radar, so separation can now be reduced in the high-traffic part of the Icelandic air traffic control area, from 50-120 nautical miles to 10 nautical miles. This reduces fuel consumption significantly, with a corresponding decrease in emissions and savings for flight operators. This program earned the Air Navigation Services the IHS Jane's award in the service category at the World ATM Congress.

01. Isavia employees during the tree planting day at Ásbrú.

02. Grants from Isavia's Community Fund awarded.

03. Isavia's workgroup on environmental issues.

Keflavík Airport's Developmental Plan

Work on Keflavík Airport's development plan included extensive consultation with stakeholders in nearby municipalities. Over fifty meetings with more than 400 parties were held in Reykjanes and other locations.

Grants

Isavia contributes to social issues with grants from Isavia's Grant Fund. There are three kinds of grants and funds: The Grant Fund of Isavia, ICE-SAR and Civil Protection, grants to university-level research and Isavia's Community Fund.

The Community Fund awarded numerous grants to various projects during the year. These focus on environmental issues, humanitarian issues, preventative measures, aviation matters, arts, culture and education. Grants in 2015 included moeny to Iceland Church Aid, the Society for Assistance to Mothers and the Benefit Society for Autistic Children. The Support Group for Health Services in Fljótsdalshérað received a grant to buy a ultrasound scanner for East Iceland's Healthcare Centre in Seyðisjförður and the National Queer Organisation of Iceland received a grant to increase education for young people, to name a few examples.

02.

03.

Isavia's ICE-SAR grant fund handed out grants to 25 search and rescue teams around the country — a total of ISK 9 million. The fund has been operated since 2012 and has allocated close to ISK 40 million to search and rescue teams on four occasions. The goal is to strengthen emergency response throughout Iceland. Isavia has collaborated successfully with search and rescue times for many years. These teams are the foundation of emergency response in Iceland, which is a matter of great concern to Isavia as the national airport operator in all of Iceland.

Isavia UI and UR funds provide grants to Masters and PhD students working on projects related to aviation or tourism. The universities are responsible for fund allocations.

PwC's Wage Equality Certification 2015

Isavia was awarded PwC's gold medal in the company's equal wage audit in 2015. The certification confirms that there is equal pay at Isavia, with less than 3.5% difference between genders. This is in line with the company's gender equality plan, where the goal is to utilise the skills, strengths and knowledge of employees in full without gender-based discrimination. Isavia has placed great importance on the equal pay of men and women and receiving this gold certification at the first attempt confirms the plan's success. PwC's equal wage audit detects gender-based wage differences within companies, apart from such wage-affecting factors as education, seniority, job type and working hours, thus providing general information on actual gender-based wage differences within the company.

Startup Tourism

Isavia is one of the sponsors of the project Startup Tourism, which gives startup companies in the tourism sector a chance to realise their business ideas. A total of ten companies were selected to take part in a business accelerator program, which commenced on 1 February 2016. For ten weeks, company representatives receive training, education, guidance and mentoring from various experts, investors and experienced entrepreneurs in order to develop their business ideas.

Corporate Governance Statement **2016**

The Corporate Governance Statement is the Board's statement for the previous operating year and is published in the company's annual report. The following Corporate Governance Statement applies to operations in 2015 and is published with the year's annual account.

With this Corporate Governance Statement, the company undertakes to comply with the Guidelines on Corporate Governance issued by the Icelandic Chamber of Commerce, the Confederation of Icelandic Employers and Nasdaq Iceland. The goals include strengthening Isavia's infrastructure and increasing transparency.

Isavia's Corporate Governance Statement can be found on the company website, www.isavia.is.

Laws and Regulations

Isavia is a publicly owned company owned by the Icelandic State. The operations of the company are in accordance with Act No 153/2009 on the merger of the government owned limited companies Flugstoðir and Keflavík Airport, Act No 76/2008 on establishing a government owned limited company for the running of Keflavík Airport, Act No 102/2006 on the establishment of a public limited company for air navigation services and airport operations by the Icelandic Civil Aviation Authority, and the Aviation Act No 60/1998.

The company's corporate governance is prescribed by Act No 2/1995 on Public Limited Companies, the company's Articles of Association and Rules of Procedure.

The company's Board refers to the Guidelines of Corporate Governance and complies with them in all major respects, although not legally bound to do so. There is currently no audit committee, selection committee or wage committee. There is no particular policy for social responsibility. No relevant inspection or ruling body has determined that the company has broken any laws or regulations.

Laws concerning the company can be found on the Alþingi website, www.althingi.is, and Articles of Association and Rules of Procedure can be found at the company website, www.isavia.is. The Guidelines of Corporate Governance can found on the website of the Iceland Chamber of Commerce, www.vi.is.

Isavia's Board of Directors

The Board of Directors of Isavia consists of five members and five alternates, all of whom are elected at the Annual General Meeting for a term of one year. Board members are nominated by the Minister for Finance. The gender ratio in Isavia's Board is 40% female and 60% male. All Board members are independent in the sense of the Guidelines on Corporate Governance.

Board's Activities and Rules of Procedure

The Board has established detailed Rules of Procedure defining its scope of authority and the divisions of tasks between it and the Managing Director. The current Rules of Procedure were approved at a Board meeting on 9 February 2015. They include the division of tasks between Board members, rules on the eligibility of politicians to take part in processing matters, procedure and minutes for meetings, rules on confidentiality, the obligation to provide information to the Board and the decision-making power of the Board.

The Board of Directors shall constitute the supreme authority of the Company from one shareholders' meeting to the next, in accordance with laws and the company's Articles of Association. The Board's main role is to manage the company between shareholders' meetings and ensure adequate supervision of the accounts and disposal of the company's property, as well as confirming the operating budget and investment plans and ensuring compliance with them. The Board takes all major decisions in the company's operations and makes sure that the company is operated in accordance with the relevant laws and regulations. Furthermore, the Board has the goal of promoting the company's growth and results in the long term by formulating company policy in consultation with company management.

Isavia's Board of Directors. From the left: Ragnar Óskarsson, Matthías Páll Imsland, Sigrún Traustadóttir, Ingimundur Sigurpálsson, Theodóra Þorsteinsdóttir and Björn Óli Hauksson.

Twenty Board meetings were held in 2015. All meetings were competent to make decisions and most were attended by all Board members. The Board's work schedule for the next operating year was available following the general meeting and shall be viewed as a call for meetings. A reminder of meetings is sent by e-mail. The Chairman chairs the meetings. Minutes are usually signed by the Board, Managing Director and the Secretary of the meeting. Besides the Board, the Managing Director, Deputy Managing Director and Director of Finance attend Board meetings, along with a Secretary who is an Isavia employee.

There are currently no formal sub-committees under the company's Board.

The Board's Performance Assessment

The Board evaluates its performance regularly, the practices and rules of procedure, development of the company, performance of the Managing Director and the efficiency of sub-committees, if present. The performance assessment is intended, among other things, to evaluate the strengths and weaknesses of the Board's work and practices and take into consideration the components which the Board believes may be improved. The last performance assessment was carred out in December 2015.

Isavia's Board 2015-16

Ingimundur Sigurpálsson, born in 1951, Chairman of the Board since 2014, Degree in Business Administration from the University of Iceland, graduate studies in Planning and Developmental Economics at George Washington University in Washington D.C. and a DBE from Columbia Business School, New York, USA. Ingimundur has been the CEO of Íslandspóstur since 2004. He has decades of experience in both the public and private sectors. Ingimundur has, and continues to hold, numerous public, representative and managerial positions. He was elected to Isavia's Board at the 2014 annual general meeting. Ingimundur is on the boards of ISNIC hf, Síminn hf. and Samskipti ehf. He is a shareholder in the investment company Molinn ehf., which is a shareholder in ISNIC.

Matthías Páll Imsland, born in 1974, Vice-Chairman from 2014, political scientist with an MS degree from Lund University, Sweden. He has also studied business administration at the University of Iceland and managerial studies at North Park University, Chicago, USA. Since early 2016, Matthías has been an assistant to Iceland's Prime Minister. He was previously an assistant to the Minister for Social Affairs and Housing in 2013-15 and worked as a consultant for South-American and Scandinavian companies. He was Director of Operations for Wow Air and, before the founding of that company, Managing Director of Iceland Express. Matthías was elected to Isavia's Board at the 2014 annual general meeting. Matthías is the

Vice-Chairman of Fríhöfnin ehf. He is not a board member or shareholder in any other management companies.

Theodóra Þorsteinsdóttir, born in 1969, Member of the Board since 2015, law degree from Reykjavik University. Thedóra has been a town councillor and head of Björt framtíð in Kópavogur since 2014 and town council president since 2014. She was Director of Marketing for Smáralind in 2005-10. Theodóra was elected to Isavia's Board at the 2015 annual general meeting. She is not a board member or shareholder in any other management companies.

Ragnar Óskarsson, born in 1948, ViceChairman of Isavia's Board 2010-14, Board member since 2014. BA in History, Icelandic and Philosophy from the University of Iceland. Graduate studies in Denmark. Teacher at the Vestmannaeyjar Secondary School. Town councillor in Vestmannaeyjar 1978-2002 for Alþýðubandalagið and Vestmannaeyjalistinn. Has been a member of Parliament as alternate member for Alþýðubandalagið in the South Constituency. Ragnar was elected to Isavia's Board at the company's founding meeting in 2010. He is not a board member of any other management company.

Sigrún Traustadóttir, born in 1962, Board member since 2014, Business Administrator from the University of Iceland in 1989 and completed an MBA degree from Reykjavik University in 2013. Since autumn 2010, Sigrún has worked independenly, including on the financial restructuring of companies, along with her MBA studies. Sigrún was Head of Finances and Development at Flugstoðir/Isavia ohf. and before that at the Icelandic Civil Aviation Administration 1995-2010. Sigrún was on the board of Flugfjarskipti from its founding, 2004-09. Sigrún was elected to Isavia's Board at the 2014 annual general meeting. She is the Chairman of ISOR, the Chairman of Frumherji ehf. and the Chairman of Vörubretti ehf. She is a shareholder in Vörubretti ehf.

Alternates in Isavia's Board of Directors

Friðbjörg Matthíasdóttir, born in 1969, business administrator, town councillor in Vesturbyggð. Alternate since 2014.

Jens Garðar Helgason, born in 1976, managing director, town councillor in Fjarðarbyggð. Alternate since 2014.

Jón Norðfjörð, born in 1947, president of Kalka, the Suðurnes Waste Station. Was an Isavia Board member in 2010-14. Alternate since 2014.

Sigurbjörn Trausti Vilhjálmsson, born in 1943, electrician, alternate since 2010.

Tryggvi Haraldsson, born in 1981, political scientist and Europe expert, project manager at the Directorate of Labour. Alternate since 2014.

Managing Director of Isavia

The Managing Director is responsible for the general management of all day-to-day operations in accordance with the policy and instructions of the Board. Day-to-day operations do not include measures which are unusual or extraordinary. He has decision-making powers regarding all operational and financial issues of the company and manages its assets. He submits an account of the company's operations and performance at Board meetings and answers to the Board for all day-to-day operations and compliance with the company's Articles of Association, laws and regulations.

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

Björn Óli was the Managing Director of Keflavíkurflugvöllur ofh. in 2008-10 oversaw the extensive merger of the Keflavík Aviation Authority, Leifur Eiríksson Air Terminal and the aviation safety division of the Commissioner of Police for Suðurnes. He had previously worked for six years on aviation matters in Kosovo, including as Director of Pristina Airport and as project manager for the Icelandic Civil Aviation Administration and Flugstoðir ehf. There, he founded the CARO - UNMIK Civil Aviation Regulatory Office and took part in the merging and developing airport and air terminal operating companies in Pristina.

Annual Accounts of the Company

Isavia's accounting year is the calendar year. The company's annual accounts are available at the Register of Annual Accounts and the company website, www.isavia.is.

Internal Controls and Risk Management

The Board has submitted a comprehensive risk policy for the company and defined the major operational risks. The main risks for the Group's financial transactions are exchange rate risk, currency risk and indexing risk. A special risk committee is active and is authorised by the Board to determine the scope and nature of risks and profit analysis for projects and ventures that could have significant effects on operations and financial position. The Risk Committee submits regular reports on risks for the company to the Board. The company does not employ an internal auditor, but the company's auditors carry out limited audits of company processes.

Arrangement of Communications between Shareholders and the Board

One shareholder, the Republic of Iceland, holds all shares and the Minister for Finance has all shareholder rights. Notices of shareholder meetings are sent to a contact at the Ministry of Finance and Economic Affairs. Shareholders' meetings are the main venue for providing information to shareholders and hold the supreme authority of the company. Other communications with shareholders regarding company matters are usually initiated by the company and the Chairman and Managing Director have met with the Minister or a representative from the Ministry. The Board conducts itself in accordance with the general policy on State ownership of limited liability and partnership companies. The company issues press releases on the performance and other matters pertaining to its operation.

Values, Code of Ethics, and Social Responsibility Policies

Values

Safety

With disciplined operating procedures, constant gathering of knowledge and systematic monitoring, we reduce risk and secure the safety of the public, our customers and our staff.

Cooperation

We join together to achieve our goals and provide quality service. We respect each other's work and encourage taking initiative when it comes to improvements.

Service

We set ourselves clear service standards and employ positive attitudes and respect toward customers. We are prudent and continuously seek ways to maximise results.

The company has implemented a code of ethics, last revised in May 2011. It extends to all aspects of the company's operations. The code of ethics include provisions regarding the business conduct of staff in relation to customers, including as regards invitations to events, gifts etc.

The company has not implemented a social responsibility policy, but such a policy is planned. The company has implemented an environmental policy that deals with social responsibility as regards environmental factors. Isavia complies with the Green Steps framework to implement Isavia's environmental policy in company offices.

Corporate Governance Statement approved at the Board meeting of Isavia ohf. on 3 March 2016.

Consolidated Financial Statement

Independent Auditor's report

To the Board of Directors and shareholders of Isavia ohf.
We have under a mandate of the Icelandic National Audit Office, audited the accompanying Consolidated Financial Statements of Isavia ohf., which comprise the Statement of the Board of Directors, Statement of Financial Position as at December 31st 2015. Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of Isavia ohf. as at December 31st 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as approved by the European Union.

Reykjavik, 22 March 2016

Anna Birgitta Geirfinnsóottir,
State Authorized Public Accountant

Guðmundur Kjartansson,
State Authorizsed Public Accountant

Report of the Board of Directors

Isavia ohf. is a government owned private limited company and complies with the Icelandic limited companies law No. 2/1995. The company's domicile and venue is Reykjavik Airport. Isavia ohf. is the national operator of airports and air navigation services in Iceland. The company ensures aviation safety and airport security in accordance with recognized international standards and operating licenses issued and supervised by the Icelandic Transport Authority.

The Consolidated Financial Statements for the year 2015 is prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

According to the Consolidated Statements of Comprehensive Income, the operating revenues of the Company amounted to ISK 26,013 million. Total comprehensive income for the year amounted to ISK 3,073 million. According to the Consolidated Statements of Financial Position, assets amount to ISK 45,187 million, the year-end book value of equity is ISK 20,134 million and the Company's equity ratio is 44.56%. The number of full-time staff equivalents throughout the year are 1.017.

At year-end, there was one shareholder in the Company, the Treasury of Iceland. The Board of Directors proposes no payment of dividends to shareholders in the year of 2015. As regards changes in the equity of the Company, the board refers to the notes attached to the financial statements.

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

The Board of Directors and the Managing Director hereby confirm the Consolidated Financial Statements for the year 2015.

Reykjavik, 22 March 2016

Board of Directors

Ingimundur Sigurpálsson,
Chairman of the Board

Matthías Páll Imsland

Sigrún Traustadóttir

Theódóra Þorsteinsdóttir

Ragnar Óskarsson

Managing Director

Björn Óli Hauksson

Consolidated Statements of **Comprehensive Income 2015**

	Notes	Consolidation 2015	2014
Operating revenues	4	26.012.925	22.079.436
Cost of goods sold		(4.715.871)	(4.259.114)
Salaries and related expenses	5	(11.041.154)	(9.434.734)
Administrative expenses		(644.282)	(553.267)
Other operating expenses		(3.603.126)	(2.925.815)
Depreciation and amortization	8,9	(2.009.451)	(1.578.116)
Operating profit		3.999.041	3.328.389
Financial income	6	219.154	210.658
Financial expenses	6	(679.206)	(650.947)
Net exchange rate differences	6	279.282	(164.220)
Profit before taxes		3.818.271	2.723.881
Income tax	7	(745.178)	(526.647)
Total comprehensive income for the year		3.073.094	2.197.234

All amounts are in thousands of Icelandic krónur.

Consolidated Balance Sheet as of 31 December 2015

Assets	Notes	Consolidation 31.12.2015	31.12.2014
Non-current assets			
Property, plant and equipment	8	31.425.312	25.714.623
Intangible assets	9	5.543.746	5.687.816
Bonds and other long term assets	11	255.174	298.393
		37.224.232	31.700.833
Current assets			
Inventories	12	453.843	423.017
Accounts receivables	13	1.633.010	1.667.237
Current maturities of long term assets	11	48.900	53.377
Other receivables	13	833.516	656.923
Time deposit		0	1.856.400
Bank balances and cash	13	4.993.722	4.490.788
		7.962.990	9.147.742
Total assets		45.187.222	40.848.575
Equity and liabilities			
Equity			
Share capital	14	5.589.063	5.589.063
Statutory reserves		2.483.798	2.483.798
Revaluation reserves		47.655	48.979
Retained earnings		12.013.517	8.939.100
Total equity		20.134.034	17.060.940
Non-current liabilities			
Loans from credit institutions	15	17.547.474	17.899.553
Deferred tax liabilities	16	1.359.680	1.095.231
		18.907.154	18.994.784
Current liabilities			
Accounts payable	17	2.790.519	1.765.196
Current maturities of non-current liabilities	17	1.017.218	1.064.127
Current tax liabilities	7	480.729	331.767
Other current liabilities	17	1.857.569	1.631.762
		6.146.034	4.792.851
Liabilities		25.053.188	23.787.635
Total equity and liabilities		45.187.222	40.848.575

Consolidated Statement of Changes in Equity

	Share Capital	Statutory reserves	Revaluation reserves	Retained earnings	Total Equity
Opening balance at 1 January 2014	5.589.063	2.483.798	49.829	6.741.016	14.863.706
Transfer to retained earnings	0	0	(850)	850	0
Comprehensive income	0	0	0	2.197.234	2.197.234
Balance at 31 December 2014	5.589.063	2.483.798	48.979	8.939.100	17.060.940
Opening balance at 1 January 2015	5.589.063	2.483.798	48.979	8.939.100	17.060.940
Transfer to retained earnings	0	0	(1.324)	1.324	0
Comprehensive income	0	0	0	3.073.094	3.073.094
Balance at 31 December 2015	5.589.063	2.483.798	47.655	12.013.517	20.134.034

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

All amounts are in thousands of Icelandic krónur.

Consolidated Statements of Financial Position

	Notes	Consolidation 2015	2014
Cash flows from operating activities			
Operating profit		3.999.041	3.328.389
Depreciation and amortization	8,9	2.009.451	1.578.116
Long term assets expensed	11	4.672	10.872
(Gain) Loss on disposal of assets		(5.249)	1.195
Operating cash flow before transfer to working capital		6.007.916	4.918.572
Changes in inventories	12	(30.826)	28.414
Changes in operating assets		(143.110)	(291.049)
Changes in operating liabilities		1.265.270	390.721
Cash generated from operations		7.099.250	5.046.657
Interest earned		224.380	230.291
Finance costs		(666.294)	(634.252)
Income taxes paid		(331.767)	(15.124)
Net cash generated from operating activities		6.325.569	4.627.573
Investing activities			
Acquisition of property, plant and equipment	8	(7.438.974)	(3.843.560)
Acquisition of intangible assets	9	(131.848)	(102.223)
Installments on bonds	11	48.654	48.695
Time deposit		1.774.920	(1.856.400)
		(5.747.248)	(5.753.529)
Financing activities			
Repayments of borrowings	15	(1.065.602)	(13.887.789)
New bank loans raised	15	1.133.680	16.745.910
Repayments of obligations under finance leases		(718)	(1.612)
		67.360	2.856.510
Net change in cash and cash equivalents		645.681	1.730.554
Cash and cash equivalents at the beginning of the year		4.490.788	2.730.031
Effect of foreign exchange rates		(142.748)	30.204
Cash and cash equivalents at the end of the year		4.993.722	4.490.788

Notes

1. General information

Isavia ohf. (the Company) 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 Reykjavik Airport.

Isavia ohf. is the national operator of airports and air navigation services in Iceland. The Company ensures flight safety and airport security in accordance with recognized international standards and operating licenses issued and supervised by the Icelandic Transport Authority.

The Consolidated Financial Statements of Isavia ohf. consist of the Parent Company and its subsidiaries. Companies within the consolidation are in addition to Isavia ohf., Duty Free Store ehf., Tern Systems ehf and Domavia ehf.

2. Summary of Significant Accounting Policies

Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the European Union by the end of the year 2015, new and revised. It is the opinion of the Management that application of new and revised IFRS has not material impact on the financial statements. The Consolidated Financial Statements have not implemented new and revised IFRS in issue but not yet effective. It is the opinion of the Management that application of new and revised IFRS which are not yet effective has not material impact on the financial statements.

Basis of preparation

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

Risk management

The Company's general policy in risk management is to manage interest rate and foreign currency risk. The Company has no currency swap contracts, options or derivatives outstanding at year-end.

Revenue recognition

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

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

2. Summary of Significant Accounting Policies (continued)

Construction contracts

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

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

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

Leasing

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

Foreign currencies

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

Borrowing costs

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

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

Income tax

Income tax is calculated and recognised in the Financial Statements. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's current tax rate is 20%.

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

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

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

2. Summary of Significant Accounting Policies (continued)

Property, plant and equipment

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

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

The depreciable amount of an asset is allocated on a straight-line basis over its useful life, less residual value. The depreciation charge for each period is recognised as an expense. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Intangible assets

Intangible assets are recognised only if it is probable that the asset will generate future economic benefits and the cost of the asset can be measured reliably. Intangible assets includes softwares. Intangible asset which qualifies for recognition as an asset is initially measured at cost. The depreciable amount of the asset is allocated on a fixed annual percentage of the historical cost over its useful life, less residual value. Estimated useful life and depreciaton methods are evaluated in end of each accounting period.

Expenditure on research activities is recognised as an expense in the period in wich it is incurred. Developement cost is recognised only if all of the following conditions are met:
- the technical feasibility of completing the intangible asset so that it will be avilable for use and sale
- the intension to complete the intangible asset and use or sell
- the ability to use or sell the intangible asset
- how the intangible asset will generate probable future enocomic benefits
- the avilabilty of adequate technical, financial and other resources to complete the development and to use or sell the asset
- the ability to mesure reliably the expenditure attributable to intangible assets during its development.

Where no intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, intangible assets are reported at cost less accumulated amortization and accumulated impairment losses.

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

Impairment

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

Inventories

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

Provisions

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

Financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and 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 recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Investments held to maturity

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

Loans and receivables

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

Impairment of financial assets

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

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the

All amounts are in thousands of Icelandic krónur.

2. Summary of Significant Accounting Policies (continued)

Financial liabilities and equity instruments

Financial liabilities

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

Financial liabilities at FVTPL

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

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

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

Other financial liabilities

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

Derecognition of financial liabilities

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

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Accounting judgements are preferably in estimated useful life of assets and in write-downs of receivables and inventories, as described at note no. 8, 9, 12 and 13.

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

4. Revenues

The consolidated composition of revenues, is specified as follows	2015	2014
Revenue from sales	9.578.762	8.593.667
Revenue from services	14.098.774	11.693.174
Revenue from long term assets	2.335.389	1.792.596
	26.012.925	22.079.436

5. Salaries and related expenses

	2015	2014
Salaries	8.504.670	7.270.398
Pension fund, employers's contribution	996.118	846.128
Payroll taxes	704.344	612.247
Salary-related expenses	117.439	115.030
Additional contribution to pension fund and changes in vacation obligation	324.047	267.461
Capitalized employment expenses	(72.078)	(29.717)
Contractor payments	12.690	8.382
Other employee expenses	453.923	344.804
	11.041.154	9.434.734
Average number of employees	1.017	914

The Company´s total management salaries and benefits for the year 2015 were ISK 72,4 million compared to ISK 77,9 million for the year 2014. The Company´s CEO and Managing Director of Duty Free Store ehf. and Tern Systems ehf. salaries are decided by the wage negotiation committee.

6. Financial income and expenses

Financial income

	2015	2014
Interest on bank deposits	100.753	81.533
Interest revenue on investments held to maturity	28.465	29.124
Other interest revenue	89.935	100.002
	219.154	210.658

Financial expenses

	2015	2014
Interest expense and indexation	(604.205)	(572.724)
Debt collection fee	(72.167)	(75.988)
Interest on late payments	(2.835)	(2.235)
	(679.206)	(650.947)

Net exchange rate differences

	2015	2014
Net exchange rate differences	279.282	(164.220)
	279.282	(164.220)

7. Income tax

Income tax has been calculated and recorded in the Financial Statements, the amount charged in the Income Statement is ISK 745,2 million. Income tax payable in the year 2016 is ISK 480,7 million.

The effective tax rate is specified as follows:

	2015		2014	
	Amount	%	Amount	%
Profit before taxes	3.818.271		2.723.881	
Tax rate	764.573	20,0%	545.698	20,0%
Non-taxable revenues	(18.329)	(0,5%)	(15.480)	(0,6%)
Joint taxation	(10.869)	(0,3%)	0	0,0%
Other changes	9.803	0,3%	(3.570)	(0,1%)
Income tax acc. to Statement of Comp. Income	745.178	19,5%	526.647	19,3%

All amounts are in thousands of Icelandic krónur.

8. Property, plant and equipment

	Buildings and artwork	Aprons and car parks	Control systems	Other assets	Total
Cost					
Balance at 1 January 2014	20.852.046	2.976.171	2.634.892	6.050.598	32.513.707
Revaluation	(632.328)	37.276	893.930	(721.490)	(422.612)
Additions	926.563	788.455	915.616	1.218.672	3.849.307
Disposals	0	0	0	(42.459)	(42.459)
Balance at 31 December 2014	21.146.281	3.801.903	4.444.438	6.505.321	35.897.943
Additions	3.001.301	938.734	311.404	3.202.070	7.453.509
Disposals	(67.882)	0	(369.417)	(108.455)	(545.754)
Balance at 31 December 2015	24.079.700	4.740.637	4.386.424	9.598.937	42.805.698
Accumulated depreciation					
Balance at 1 January 2014	4.366.232	927.311	1.494.555	2.546.854	9.334.952
Revaluation	(2.049)	11	236.077	(656.651)	(422.612)
Charge for the year	506.672	135.876	269.193	394.756	1.306.497
Disposals	0	0	0	(35.517)	(35.517)
Balance at 31 December 2014	4.870.855	1.063.198	1.999.826	2.249.443	10.183.320
Charge for the year	550.546	191.609	334.396	656.983	1.733.533
Disposals	(63.600)	0	(365.511)	(107.357)	(536.467)
Balance at 31 December 2015	5.357.801	1.254.807	1.968.711	2.799.069	11.380.386
Book value					
Book value 1 January 2015	16.275.426	2.738.705	2.444.612	4.255.878	25.714.623
Book value at year-end	18.721.899	3.485.830	2.417.713	6.799.868	31.425.312

Estimated useful lives of fixed assets are as follows:

Buildings and artwork	7-100 years			
Aprons and car parks		5-50 years		
Fixtures and machinery			3-20 years	
Other assets				3-20 years

Information about the revalued properties in year-end:

	31.12.2015	31.12.2014
Revalued book value	118.704	121.701
Impact of the special revaluation	(58.116)	(59.730)
Book value without impact of revaluation	60.589	61.971

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

Consolidation	Assessment value	Insurance value
Buildings and sites	19.569.309	43.428.038
Machinery and equipment, asset insurances		10.762.090
Other insurances		3.576
Halt insurance		8.005.510

9. Intangible assets and amortization

Consolidation	Usage agreement on facilities	Usage agreement on runways	Software	Total
Cost				
Balance at 1 January 2014	477.035	5.706.000	939.299	7.122.334
Revaluation	0	0	(23.029)	(23.029)
Additions	0	0	102.223	102.223
Balance at 31 December 2014	477.035	5.706.000	1.018.493	7.201.528
Additions	0	0	131.848	131.848
Disposals	0	0	(8.097)	(8.097)
Balance at 31 December 2015	477.035	5.706.000	1.142.244	7.325.279
Amortization				
Balance at 1 January 2014	79.506	951.000	234.616	1.265.122
Revaluation	0	0	(23.029)	(23.029)
Charge for the year	15.901	190.200	65.518	271.619
Balance at 31 December 2014	95.407	1.141.200	277.105	1.513.712
Charge for the year	15.901	190.200	69.817	275.918
Disposals	0	0	(8.097)	(8.097)
Balance at 31 December 2015	111.308	1.331.400	338.825	1.781.533
Book value				
Book value 1 January 2015	381.628	4.564.800	741.388	5.687.816
Book value at year-end	365.727	4.374.600	803.419	5.543.746

Due to the development of software intended for sale on the global market in the coming years, the development cost amounts to approximately 62,5 million which was capitalized in calendar years 2012 and 2015. The software development was completed in the second half of calendar year 2015 and are availble for sale and already in use by clients. The Company has assessed the recoverable amount of this intangible asset and determined that this asset has not suffered an impairment loss. Other software is purchased and its estimated lifespan is 3-20 years.

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

10. The Consolidation

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

	Ownership%	Nominal amount	Principal activity
Shares in subsidiaries			
Duty Free Store ehf., Keflavik Airport	100,00%	50.000	Retail and commerce
Tern Systems ehf., Kopavogur	100,00%	50.000	Software and consulting
Domavia ehf., Reykjavik	100,00%	500	Real estate business

11. Bonds and other long term assets

	31.12.2015	31.12.2014
Bond loan, weighted average of interest rate 5.48%.	304.073	347.098
Construction contracts	0	4.672
Book value at year-end	304.073	351.770
Current maturities	(48.900)	(53.377)
	255.174	298.393

Construction contracts are projects which are conducted for The International Civil Aviation Organization related to the Joint Finance agreement.

All amounts are in thousands of Icelandic krónur.

11. Bonds and other long term assets (continued)

Bonds and long term assets installments are specified as follows

	31.12.2015	31.12.2014
Year 2015	-	53.377
Year 2016	48.900	48.705
Year 2017	48.900	39.790
Year 2018	39.985	39.790
Year 2019	39.985	39.790
Year 2020	39.985	39.790
Installments later	86.320	90.530
	304.073	351.770

12. Inventories

	31.12.2015	31.12.2014
Goods for resale	449.323	460.590
Goods in transit	17.652	6.985
Allowance for old and obsolete inventory	(13.132)	(44.558)
	453.843	423.017

Changes in allowance for old and obsolete inventory:

At the beginning of the year	(44.558)	(16.932)
Impairment loss recognized on inventories	0	(40.249)
Reversed allowance for old and obsolete inventory	13.981	0
Inventories written off	17.445	12.623
At year-end	(13.132)	(44.558)
Insurance value of inventories	662.594	650.069

No inventories have been pledged at year-end 2015.

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

13. Other financial assets

Accounts receivables

	31.12.2015	31.12.2014
Domestic receivables	1.340.711	1.335.756
Foreign receivables	264.018	362.429
Construction contracts	70.409	37.058
Allowances for doubtful accounts	(42.129)	(68.006)
	1.633.010	1.667.237

Aging and allowance for doubtful accounts

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

	31.12.2015		31.12.2014	
	Gross amount	Allowance	Gross amount	Allowance
Receivables not yet due	1.225.115	12.359	1.215.179	12.696
Receivables, overdue 1-90 days	377.922	15.059	443.698	10.622
Receivables, overdue 91-180 days	50.910	10.263	15.878	158
Receivables, overdue 181-210 days	12.502	4.274	3.728	367
Receivables, overdue 211 days and older	8.690	174	56.760	44.163
	1.675.139	42.129	1.735.243	68.006

13. Other financial assets (continued)

Changes in the allowance for doubtful accounts:

	31.12.2015	31.12.2014
At the beginning of the year	(68.006)	(58.324)
Impairment loss recognized on receivables	(9.900)	(10.581)
Amounts written off as uncollectable	35.777	899
At year-end	(42.129)	(68.006)

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

Other receivables

	31.12.2015	31.12.2014
Value added tax, receivables	392.541	265.141
Prepaid expenses	89.984	96.907
Capital income tax	21.342	17.195
Prepaid salaries	48.050	47.222
Other receivables	281.599	230.458
	833.516	656.923

Bank balances and cash

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

	31.12.2015	31.12.2014
Bank balances in ISK	889.241	1.842.724
Bank balances in foreign currencies	4.099.412	2.643.478
Cash in ISK	5.069	4.586
	4.993.722	4.490.788

14. Equity

Share capital is specified as follows:

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

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

All amounts are in thousands of Icelandic krónur.

15. Long term borrowings

	Loans from credit institutions	
	31.12.2015	31.12.2014
Liabilites in CHF	3.236.070	3.353.387
Liabilites in EUR	7.612.680	7.517.816
Liabilites in GBP	952.042	1.032.745
Liabilites in JPY	801.404	833.533
Liabilites in SEK	265.128	298.483
Liabilites in USD	3.846.217	3.990.588
Liabilites in ISK	1.851.150	1.936.415
	18.564.692	18.962.966
Current portion of long term liabilities	(1.017.218)	(1.063.413)
Non-current liabilities at year-end	17.547.474	17.899.553

Installments of non-current liabilities are specified as follows:

	Loans from credit institutions	
	31.12.2015	31.12.2014
Current maturities	-	1.063.413
Installments in 2016	1.017.218	1.047.454
Installments in 2017	891.142	909.249
Installments in 2018	765.366	771.337
Installments in 2019	884.503	869.813
Installments in 2020	1.003.975	968.617
Installments later	14.002.488	13.333.081
	18.564.692	18.962.966

Loans amounting to ISK 16,845 million are subject to financial covenants regarding equity ratio. Thereof loans amounting to ISK 4,535 million are also subject to condition of net interest bearing debts/EBITDA ratio. The financial covenants are reviewed on a regular basis and it is management view that they are unlikely to be breached.

16. Deferred tax liability

	31.12.2015	31.12.2014
Balance at beginning of the year	1.095.231	900.350
Effects of joint taxation	(10.870)	0
Calculated income tax for the year	756.048	526.647
Income tax payable for the next year	(480.729)	(331.767)
Balance at the end of the year	1.359.680	1.095.231

Deferred tax balances consist of the following account balances

	31.12.2015	31.12.2014
Property, plant and equipment	1.349.678	1.048.219
Current assets	6.386	(56.146)
Other items	3.615	103.158
	1.359.680	1.095.231

17. Other financial liabilities

Accounts payable

	31.12.2015	31.12.2014
Domestic accounts payable	1.647.834	1.317.867
Accounts payable - Joint finance agreement	915.912	84.927
Foreign accounts payable	226.773	362.403
	2.790.519	1.765.196

Current maturities of long-term liabilities

	31.12.2015	31.12.2014
Loans from credit institutions	1.017.218	1.063.413
Obligation under finance leases	0	714
	1.064.127	1.064.127

Other current liabilities

	31.12.2015	31.12.2014
Value added tax, payable	14.459	12.101
Deferred revenue	18.550	17.727
Accrued additional contribution to pension fund	168.968	170.772
Salaries and related expenses payable	416.246	354.888
Accrued holiday commitment	913.741	773.689
Accrued interest, payable	128.998	143.139
Other liabilities	196.606	159.446
	1.857.569	1.631.762

18. Financial risk

Financial instruments

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

Financial assets	31.12.2015	31.12.2014
Bank balance and cash	4.993.722	4.490.788
Financial assets that are intended to hold to maturity	304.073	347.098
Loans and receivables	2.328.491	4.185.232

Financial liabilities	31.12.2015	31.12.2014
Other financial liabilities	23.693.508	22.692.404

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

All amounts are in thousands of Icelandic krónur.

18. Financial risk (continued)

Risk management

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

Interest rate risk

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

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

Sensitivity analysis

In the analysis below the effects of 50 and 100 basis points increase on profit or loss and equity are demonstrated. The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared assuming the amount outstanding at the balance sheet date was outstanding for the whole year. The analysis assumes that all other variables than basis points are held constant. The sensitivity analysis does take into account tax effects. A positive amount below indicates an increase in profit and other equity. A decrease in basis points would have an opposite impact on income statement and equity.

Effects on profit or loss and other equity are the same as change in valuation of the underlying financial instruments is not charged directly to equity. Positive amount indicates increased profits and equity. Lower interest rates would have the same effect but in the opposite direction:

	31.12.2014		31.12.2014	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on profit or loss and other equity	(48.106)	(96.212)	(43.905)	(87.810)

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

	Year-end rate		Average rate	
Currency	2015	2014	2015	2014
EUR	141,32	154,27	146,35	154,86
GBP	192,06	197,66	201,64	192,17
JPY	1,076	1,062	1,090	1,104
CHF	130,50	128,29	137,21	127,50
DKK	18,94	20,72	19,62	20,77
NOK	14,75	17,14	16,40	18,54
SEK	15,40	16,44	15,65	17,03
USD	129,59	126,90	131,91	116,75
CAD	93,27	109,59	103,42	105,71

Foreign currency risk 31.12.2015

	Assets	Liabilities	Net balance
EUR	3.412.015	7.740.674	(4.328.660)
GBP	763.573	964.378	(200.805)
JPY	4.576	801.404	(796.828)
CHF	19.344	3.243.357	(3.224.013)
DKK	11.834	13.358	(1.524)
NOK	3.125	12.452	(9.327)
SEK	564	267.196	(266.632)
USD	142.419	3.897.449	(3.755.029)
CAD	5.981	0	5.981

Foreign currency risk 31.12.2014

	Assets	Liabilities	Net balance
EUR	4.246.240	7.835.794	(3.589.553)
GBP	439.776	1.039.993	(600.217)
JPY	2.674	833.712	(831.038)
CHF	10.496	3.357.318	(3.346.822)
DKK	2.975	8.194	(5.219)
NOK	10.728	0	10.728
SEK	5.895	298.529	(292.633)
USD	142.932	4.016.128	(3.873.196)
CAD	2.929	0	2.929

All amounts are in thousands of Icelandic krónur.

18. Financial risk (continued)

Sensitivity analysis

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

Effects on profit or loss and equity	**31.12.2015**		**31.12.2014**	
	5%	10%	5%	10%
EUR	(173.146)	(346.293)	(143.582)	(287.164)
GBP	(8.032)	(16.064)	(24.009)	(48.017)
JPY	(31.873)	(63.746)	(33.242)	(66.483)
CHF	(128.961)	(257.921)	(133.873)	(267.746)
DKK	(61)	(122)	(209)	(418)
NOK	(373)	(746)	429	858
SED	(10.665)	(21.331)	(11.705)	(23.411)
USD	(150.201)	(300.402)	(154.928)	(309.856)
CAD	239	478	117	234

Credit risk

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

Maximum credit risk	**Carrying amount**	
	31.12.2015	31.12.2014
Bonds and other long term assets	304.073	351.770
Accounts receivables	1.633.010	1.667.237
Other receivables	695.482	355.391
Time deposit	0	1.856.400
Bank balances and cash	4.993.722	4.490.306
	7.626.286	8.721.104

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

18. Financial risk (continued)

Liquidity risk management

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

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

	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2015				
Non-interest bearing	5.128.817	0	0	5.128.817
Floating interest rates	927.876	3.133.014	13.177.792	17.238.682
Fixed interest rates	89.342	411.973	824.696	1.326.010
	6.146.034	3.544.987	14.002.488	23.693.508
Assets 31.12.2015				
Non-interest bearing	2.338.476	39.939	35.235	2.413.650
Floating interest rates	5.032.637	120.000	60.000	5.212.637
	7.371.113	159.939	95.235	7.626.286
Net balance 31.12.2015	1.225.078	(3.385.048)	(13.907.253)	(16.067.222)

	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2014				
Non-interest bearing	3.999.215	0	0	3.999.215
Floating interest rates	981.308	3.215.977	13.383.505	17.580.790
Fixed interest rates	82.819	381.877	918.194	1.382.890
	5.063.341	3.597.854	14.301.699	22.962.894
Assets 31.12.2014				
Non-interest bearing	2.488.653	39.159	40.320	2.568.132
Floating interest rates	6.390.293	128.915	90.000	6.609.207
	8.878.946	168.074	130.320	9.177.339
Net balance 31.12.2014	3.815.604	(3.429.780)	(14.171.379)	(13.785.555)

19. Other issues

Revenues of International Air Navigation Services

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

Court Proceedings

In the year 2015 Drífa ehf. started Court proceedings against Isavia ohf. demanding compensation for alleged damages in connection with the pre-qualification process when renting commercial space in the duty free area of Leifur Eiríksson Air Terminal. A selection committee considered an offer from another bidder more advantageous. The amount of Compensation claimed is ISK 903 million plus interest. Isavia ohf is of the opinion that it acted in accordance with the pre-qualification procedure and the lawsuit is without merit.

All amounts are in thousands of Icelandic krónur.

20. Other obligations

Operating license

Isavia ohf. holds a license from the Iceland Civil Aviation Administration for the operations of air navigation services under regulation No. 1129/2014 and a license for the operation of airports according to regulation No. 464/2007. The Company is also a holder of flight operating license to operate aerial work (flight test etc.) according to regulation No. 97/2009. The licenses are granted for variable periods. Licenses for the operations of air navigation service is valid until 2021 and Keflavik Airport, Reykjavik Airport, Akureyri Airport and Egilsstadir Airport are valid until September 30th, 2016. Registered landing area or other airports including airports for scheduled flights are valid until 2017.

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

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

Service agreement for construction

The service agreement between the Ministry of the Interior and the Company applies to maintenance and construction of airports others than Keflavik Airport. The company works with the Ministry of the Interior and prepares a proposal for maintance and construction which the company believes is neccessary to perform in accordance with the National Transportation Policy. The construction projects are included in this plan and are therefore agreed, according to the transportation policy. Payments are received according to a payment plan. In 2015 the amount for construction projects was in total ISK 354,2 million (2014: ISK 181,6 million).

Service agreements for operations

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

The Company is obliged to have in effect all legally binding insurance including liability insurance for air traffic control and airports. The liability coverage at year-end for air traffic control and airports amounted to USD 1,000,000,000 and for flight testing amounted to USD 500,000.

The Company's legally binding insurance is exempt from liability due to acts of terrorism. The Company has procured insurance against terrorism covering damage in air navigation services and airports amounting to approximately USD 250,000,000 and USD 15,000,000 at Keflavik Airport.

The Company has purchased an idemnity insurance for the Board of Directors and Management which covers a loss up to ISK 300,000,000.

Obligation due to employees

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

21. Related parties

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

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

22. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on March 22nd, 2016.

23. Consolidated ratios

From Statement of Comprehensive Income:	2015	2014
Profitability		
Earnings before interests, taxes, depreciation and amortisation (EBITDA)	6.008.492	4.906.505
a) Contribution margin on operation	23,10%	22,22%
b) Profit margin on operating revenue	11,81%	9,95%
c) Earning per share (EPS)	0,55	0,39
d) Return on equity	16,52%	13,77%

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

From Balance sheet:	31.12.2015	31.12.2014
Activity ratios		
e) Investment in inventories	0,02	0,02
f) Rate of return on assets	0,60	0,59
g) Inventory turnover	10,76	9,74
h) Receivables turnover	15,76	15,51

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

Liquidity ratios		
i) Quick or acid-test ratio	1,22	1,82
j) Current ratio	1,30	1,91
k) Net Interest Bearing Debts/EBITDA	2,26	2,95

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

Coverage ratios		
l) Equity ratio	44,56%	41,77%
m) Internal value of shares	3,60	3,05

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

From Cash flow:	2015	2014
n) Net cash debt coverage	0,25	0,19
o) Quality of sales	2,06	2,11
p) Quality of net profit	1,78	1,52

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

Operating expenses as percentage of revenues	2015	2014
Cost of goods sold/income from retail division	18,13%	19,29%
Salaries and related expenses/operating revenues	42,44%	42,73%
Administrative expenses/operating revenues	2,48%	2,51%
Other operating expenses/operating revenues	13,85%	13,25%
Depreciation and amortization/operating revenue	7,72%	7,15%
Operating expenses/operating revenues	84,63%	84,93%

24. Segment reporting

Segment information are disclosed on basis of organizational structure and internal management information. Segments are divided on basis of three operational components from the parent company and one subsidiary. Majority of Air navigation component consists of service to carriers granted on basis of the Joint Finance Agreement. Domestic systems are operation of airports and airport control towers for domestic flights. Keflavik airport are operation of airport and control tower in Keflavik in addition to Leifur Eiriksson Air Terminal. The Duty Free is a retail business and Others consists of support units of the parent company and two subsidiaries. One client has revenues that comprise more than 10% of the consolidation revenue, that is Icelandair Group ISK 4,596 million or about 18% of the consolidate operating revenues.

Segment information year 2015:	Air-navigation	Domestic Airports	Keflavik Airport	Duty Free Store	Others	Eliminations	Consolidated
Revenue:							
External revenue	4.742.496	1.960.956	9.273.006	9.731.402	305.065		26.012.925
Inter-segment revenue	482.684	87.309	3.298.309	0	2.149.819	(6.018.122)	0
Total revenue	5.225.181	2.048.265	12.571.315	9.731.402	2.454.884	(6.018.122)	26.012.925
Comprehensive income:							
Operating profit	374.775	-10.403	3.444.614	190.429	(373)		3.999.041
Net financial income / (expenses)							(180.770)
Profit before taxes							3.818.271
Total comprehensive income							3.073.094
Balance sheet:							
Non-current assets	3.128.041	876.465	31.830.792	344.016	1.044.917		37.224.232
Other assets unallocated to segments							7.962.990
Total assets							45.187.222
Total liabilities							25.053.188
Other information:							
Capital additions	642.318	223.351	6.511.737	99.791	108.161		7.585.357
Depreciation and amortization	192.478	72.268	1.572.623	86.405	85.677		2.009.451

Segment information year 2014:	Air-navigation	Domestic Airports	Keflavik Airport	Duty Free Store	Others	Eliminations	Consolidated
Revenue:							
External revenue	4.334.414	1.826.051	6.991.292	8.734.192	193.487		22.079.436
Inter-segment revenue	235.971	90.367	2.884.862	0	1.923.669	(5.134.869)	0
Total revenue	4.570.385	1.916.418	9.876.154	8.734.192	2.117.157	(5.134.869)	22.079.436
Comprehensive income:							
Operating profit	205.407	15.815	3.058.853	52.290	(3.975)		3.328.389
Net financial income / (expenses)							(604.508)
Profit before taxes							2.723.881
Total comprehensive income							2.197.234
Balance sheet:							
Non-current assets	2.720.385	423.928	26.893.098	331.133	1.332.289		31.700.833
Other assets unallocated to segments							9.147.742
Total assets							40.848.575
Total liabilities							23.787.635
Other information:							
Capital additions	440.455	138.224	3.282.863	9.181	80.808		3.951.530
Depreciation and amortization	200.485	62.597	1.177.503	71.554	65.976		1.578.116

All amounts are in thousands of ISK

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