

Isavia ohf.

Condensed Consolidated
Interim Financial Report

1.1. - 30.06.2019

Isavia Ltd.
Reykjavik Airport
101 Reykjavík
id.no. 550210-0370

Isavia ohf.

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Review Report on Interim Financial Information

To the Board of Directors and shareholders of Isavia ohf.

We have, under a mandate of the Icelandic National Audit Office, reviewed the accompanying Condensed Consolidated Financial Statements of Isavia ohf. for the period January 1st to June 30th 2019, which comprise the Statement of the Board of Directors, Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Consolidated Interim Financial Statements does not give a true and fair view of the financial position of the entity as at June 30th 2019, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards for Interim Financial Reporting, IAS 34, as adopted by the European Union.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 14 to the financial statements which describes the uncertainty of the recovery of a claim due to value added tax from the Directorate of Internal Revenue.

Kópavogur, September 26th, 2019

Deloitte Ltd.

Anna Birgitta Geirfinnsdóttir
State Authorized Public Accountant

Kristján Þór Ragnarsson
State Authorized Public Accountant

Statement by the Board of Directors and Managing Director

Isavia ohf. is a government owned private limited company and complies with the Icelandic Limited Companies Act, No. 2/1995. Isavia ohf. owns and operates Keflavik Airport as well as operation of the domestic airport in Iceland under a service agreement with the Ministry of Transport and Local Government. Ownership and maintenance of the domestic airports' infrastructure is under state control. The company also manages air traffic in the Icelandic air traffic control area. Isavia ohf. is a service company in airport operations and navigation and lays the foundation for Iceland's air transport.

The Condensed Consolidated Interim Financial Statements of Isavia ohf. for the period January 1st to June 30th, 2019 comprise the Condensed Interim Financial Statements of Isavia ohf. and its subsidiaries, Duty Free Store ehf, Tern Systems ehf, Domavia ehf. and Suluk ApS. The Condensed Consolidated Interim Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standard (IAS) 34 Interim Financial Reporting.

According to the Income Statement the Company's revenues, amounted to ISK 18.162 million for the period. The Company's comprehensive net loss of the period amounted to ISK 2.524 million. At the end of the period the Company's assets amount to ISK 78.683 million in the end of June 2019. Total Equity amounted to ISK 32.743 million. The Company's equity ratio in the period is 41,6%

There was one shareholder in the Company, the Treasury of Iceland, at the end of the period.

It is the opinion of the Board of Directors and the Managing Director of Isavia Ltd. that these Interim Financial Statements present all the information necessary to show the position of the Company at the end of June 2019, the operating results and the financial developments during the period 1.1 - 30.06 2019.

However, it should be noted that there is uncertainty about the treatment of submitted VAT to Directorate of internal revenues for the period September 2016 to December 2018 but from beginning of year 2019 this uncertainty does no longer exist after change in laws regarding VAT. The discussion about the uncertainty can be found in note 14 with the Condensed Consolidated Financial Statements, but the company has argued its point of view. Until the final ruling is made in this matter there will be uncertainty and if the ruling becomes unfavorable to the company it will affect the company's operations.

There is also discussion in note number 14 about the company's claim for accumulated Wow Air flight fees due before the company's bankruptcy, but the company's possibility to collect the claim decreased considerably with the ruling of the Reykjanes District Court regarding the grounding of the airplane that was operated by the airline. In the Company's opinion the ruling is incorrect but given the uncertainty regarding the recovery of the amount following the ruling, an accounting write-down for the claim was made. This write-down does not change the Company's view that the decision of the District Court on the refusal to postpone the legal effect in that ruling is significantly objectionable.

It is the opinion of the Board of Directors and Managing Director that accounting policies used are appropriate and these Condensed Consolidated Financial Statements present all the information necessary to give an overview of development and results in Company's operating performance, as well as describing the principal risk and uncertainty factors faced by the Company.

The Board of Directors and Managing Director of Isavia ohf. hereby confirm the Consolidated Interim Financial Statements for the period that ends 30.6 2019 with their signatures.

Reykjavík, September 26th, 2019

Board of Directors

Orri Hauksson
Chairman of the Board

Eva Pandora Baldursdóttir

Matthías Páll Imsland

Nanna Margrét Gunnlaugsdóttir

Valdimar Halldórsson

Managing director

Sveinbjörn Indriðason

Consolidated Statements of Comprehensive Income 1.1- 30.06 2019

	Notes	Consolidation	
		1.1 - 30.06.2019	1.1 - 30.06.2018
Operating revenues	4	18.161.710	19.015.393
Cost of goods sold		(2.985.230)	(2.957.596)
Salaries and related expenses	5	(9.479.644)	(9.309.212)
Administrative expenses		(287.531)	(302.726)
Other operating expenses		(2.359.869)	(2.531.039)
Allowances for doubtful accounts	14	(2.084.840)	(30.872)
Depreciation and amortization	8,9	(1.907.001)	(1.697.705)
Operating (loss) profit		<u>(942.406)</u>	<u>2.186.242</u>
Financial income	6	145.794	88.965
Financial expenses	6	(580.945)	(545.732)
Net exchange rate differences	6	(1.795.411)	193.700
(Loss) profit before taxes		<u>(3.172.967)</u>	<u>1.923.176</u>
Income tax	7	648.681	(352.190)
Total comprehensive income for the period		<u><u>(2.524.286)</u></u>	<u><u>1.570.985</u></u>

Consolidated Statements of Financial Position June 30th 2019

Assets	Notes	Consolidation	
		30.06.2019	31.12.2018
Non-current assets			
Property, plant and equipment	8	57.316.291	57.195.995
Intangible assets	9	4.842.233	4.965.176
Right of use asset	10	188.609	0
Bonds	12	131.013	152.967
		<u>62.478.146</u>	<u>62.314.137</u>
Current assets			
Inventories	13	750.187	674.761
Accounts receivables	14	4.777.439	5.616.752
Current maturities of long-term assets	12	37.980	37.514
Other receivables	14	6.060.159	5.754.389
Bank balances and cash	14	4.579.462	5.436.127
		<u>16.205.227</u>	<u>17.519.544</u>
Total assets		<u><u>78.683.373</u></u>	<u><u>79.833.681</u></u>
Equity and liabilities			
Equity			
Share capital	15	5.589.063	5.589.063
Statutory reserves		2.483.798	2.483.798
Revaluation reserves		43.022	43.684
Retained earnings		24.627.658	27.150.903
		<u>32.743.541</u>	<u>35.267.448</u>
Non-current liabilities			
Loans from credit institutions	16	32.767.419	33.626.775
Lease agreements	17	132.163	0
Deferred tax liabilities	18	1.488.487	2.138.638
		<u>34.388.068</u>	<u>35.765.413</u>
Current liabilities			
Accounts payable	19	1.545.564	1.858.581
Current maturities of loans from credit institutions	16	5.365.580	3.133.778
Current maturities of lease agreements	17	57.886	0
Current tax liabilities	7	1.469	953.694
Other current liabilities	19	4.581.264	2.854.767
		<u>11.551.763</u>	<u>8.800.819</u>
Liabilities		<u>45.939.831</u>	<u>44.566.233</u>
Total equity and liabilities		<u><u>78.683.373</u></u>	<u><u>79.833.681</u></u>

Consolidated Statement of Changes in Equity 1.1.- 30.06.2019

	Share Capital	Statutory Reserves	Revaluation reserves	Translation difference	Retained earnings	Total Equity
Opening balance at January 1st, 2018	5.589.063	2.483.798	45.007	0	22.887.611	31.005.480
Depreciation of revaluation	0	0	(662)	0	662	0
Translation differences	0	0	0	(7)	0	(7)
Comprehensive income	0	0	0	0	1.570.985	1.570.985
Balance at June 30th, 2018	5.589.063	2.483.798	44.345	(7)	24.459.258	32.576.458
Opening balance at January 1st, 2019	5.589.063	2.483.798	43.684	0	27.150.903	35.267.448
Depreciation of revaluation	0	0	(662)	0	662	0
Translation difference	0	0	0	0	379	379
Comprehensive income	0	0	0	0	(2.524.286)	(2.524.286)
Balance at June 30th, 2019	5.589.063	2.483.798	43.022	0	24.627.658	32.743.541

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

Consolidated Statement of Cash Flows 1.1 - 30.06.2019

	Notes	Consolidation	
		1.1.-30.06.2019	1.1.-30.06.2018
Cash flows from operating activities			
Operating (loss) profit		(942.406)	2.186.242
Depreciation and amortization	8,9	1.907.001	1.697.705
Short term assets - change of provision		2.080.801	31.242
Gain on disposal of assets		546	2.491
Operating cash flow before transfer to working capital		3.045.942	3.917.680
Changes in inventories		(73.211)	(130.941)
Changes in operating assets		(1.512.775)	(2.467.555)
Changes in operating liabilities		865.853	568.028
Cash generated from operations		2.325.808	1.887.212
Interest earned		88.216	71.433
Finance costs paid		(490.796)	(511.785)
Income taxes paid		(381.718)	(457.195)
Net cash generated from operating activities		1.541.511	989.665
Investing activities			
Investments of property, plant and equipment	8,9	(1.873.913)	(3.037.822)
Installments on bonds		25.797	22.244
		(1.848.116)	(3.015.578)
Financing activities			
Repayments of borrowings		(564.298)	(562.734)
Installments of leases		(29.252)	0
Changes in short term loans from credit institutions		0	1.882.133
		(593.550)	1.319.399
Net change in cash and cash equivalents		(900.155)	(706.515)
Cash and cash equivalents at the beginning of the period	14	5.436.127	3.101.287
Effect of foreign exchange rates		43.490	(22.281)
Cash and cash equivalents at the end of the period		4.579.462	2.372.491

Notes

1. General information

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

Isavia ohf. is the national operator of all airports and air navigation services in Iceland that cover 5.4 million square kilometers and is one of the largest in the world. The company ensures aviation safety and airport security in accordance with recognized international standards and operating licenses issued and supervised by the Icelandic Civil Aviation Authority.

The Consolidated Financial Statements of Isavia 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., Domavia ehf. and Suluk ApS.

2. Summary of Significant Accounting Policies

Statement of compliance

The Condensed Consolidated Interim Financial Statements for the period of January 1st to June 30th, 2019 have been prepared in accordance with IAS 34, as adopted by the European Union. Condensed Interim Financial Statements does not include all the information required in the final financial statements and should be read in conjunction with the Consolidated Financial Statement for the year 2018.

The Interim Financial Statements has been prepared according to the same accounting principles as previous year 2018 except for one new accounting standard (IFRS 16) that took effect January 1st, 2019, see the effect of the standard below. The company's financial statement can be accessed from the company or on its website www.isavia.is

IFRS 16 Leases poses new requirements with respect to lease accounting. There are significant changes in the lessee's accounting policies, where financing leases and operation leases are no longer distinguished, lease obligation and the right of use are required for all leases. Exeptions are made for short-term rentals (for less than 12 months) and leases of low value assets. Application of IFRS 16 does not affect the Company's accounting policies as a lessor.

At initial application on January 1st, 2019 the Company will recognize a right-of-use asset equal to the amount of lease liability, with no restatement of comparative information. The Company has elected to apply the practical expedient to grandfather the definition of a lease on transition, and thereby applying IFRS 16 to all contracts entered before January 1st, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

With the application of IFRS 16, the nature of fees related to the Company's leasing contracts for plots and real estate changes, whereby the Company now depreciates depreciation rights and interest expense on lease debt, but had previously charged lease payments among operating expenses on a straight-line basis over the term of the lease. The impact on the financial statements is lower earnings in the first half of 2019, which is approximately ISK 1.3 million. Impact on individual items in the income statement is as follows: Increase in depreciation by ISK 30.9 million, increase in interest expense by ISK 3.6 million and decrease in operating expenses by ISK 33.2 million. On the implementation date of January 1st, 2019, the company entered a lease liability in the amount of ISK 181.9 million and a change in contracts during the period amounted to ISK 34.7 million or a total of ISK 216.6 million that was entered during the period. The rights of use were transferred to the same amounts in the balance sheet. According to IAS 17, all operating lease payments were shown among operating cash flows. The effect of the adoption of IFRS 16 on cash flow is an increase in cash from operating activities of 29.3 million and a decrease in cash due to financing activities by the same amount.

The fundamental accounting principles

The Condensed Consolidated Interim Financial Statements are presented in Icelandic krona (ISK), which is the functional currency of the Company. The Condensed Consolidated Interim Financial Statements have been prepared on an historical cost basis except that one certain financial asset is revalued.

3. Significant accounting judgements and key sources of estimation uncertainty

The preparation of the Condensed Consolidated Financial Statements, in accordance with international accounting standard IAS 34, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses recognized in the Condensed Consolidated Financial Statements. The accounting estimates and underlying assumptions are based on historical experience and other relevant factors. Actual results may differ from these estimates.

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

Accounting judgements are preferably in following account balances:

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

Notes

4. Revenues

The consolidated composition of revenues, is specified as follows:	1.1.-30.06.2019	1.1.-30.06.2018
Revenue from air navigation	3.503.604	3.151.594
Revenue from domestic airports	1.251.428	1.252.731
Revenue from Keflavik airport	7.173.822	8.011.311
Revenue from other functionals	59.360	64.603
Revenue from sales	6.132.435	6.071.628
Other revenues	41.061	463.526
	<u>18.161.710</u>	<u>19.015.393</u>

5. Salaries and related expenses

	1.1.-30.06.2019	1.1.-30.06.2018
Salaries	7.198.651	6.962.241
Pension fund	1.086.294	1.063.018
Payroll taxes	526.336	543.890
Other salary-related expenses	120.156	113.744
Pension and vacation pay obligation, calculated change	347.833	409.264
Capitalized salaries expenses	(190.673)	(191.558)
Other employee expenses	391.046	408.614
	<u>9.479.644</u>	<u>9.309.212</u>

6. Financial income and expenses

Financial income

	1.1.-30.06.2019	1.1.-30.06.2018
Interest on bank deposits	68.712	30.447
Interest revenue on investments held to maturity	6.372	7.317
Other interest revenue	70.710	51.201
	<u>145.794</u>	<u>88.965</u>

Financial expenses

	1.1.-30.06.2019	1.1.-30.06.2018
Interest expense and indexation	(543.463)	(506.558)
Debt collection fee	(36.496)	(33.153)
Interest on late payments	(986)	(6.021)
	<u>(580.945)</u>	<u>(545.732)</u>

Net exchange rate differences

	1.1.-30.06.2019	1.1.-30.06.2018
Net exchange rate differences	<u>(1.795.411)</u>	<u>193.700</u>

7. Income tax

Income tax has been calculated and recorded in the Condensed Financial Statements; the amount charged in the Income Statement are ISK 649 million. Estimated Income tax payable for the period are ISK 1,5 million.

The effective tax rate is specified as follows:

	1.1.-30.06.2019		1.1.-30.06.2018	
	Amount	%	Amount	%
Profit before taxes	(3.172.967)		1.923.176	
Tax rate	634.593	20,0%	(384.635)	20,0%
Other items	14.088	-0,7%	32.445	-1,7%
Income tax charged to Income Statement	<u>648.681</u>	20,4%	<u>(352.190)</u>	18,3%

Notes

8. Property, plant and equipment

	Buildings and artwork	Loading bridges and car parks	Fixtures and machinery	Other assets	Total
Cost					
Balance at beginning of period	35.665.140	18.510.762	3.976.041	15.732.489	73.884.432
Net exchange rate differences	0	0	0	59	59
Additions	657.690	337.210	38.408	790.961	1.824.270
Disposals	0	0	0	(40.122)	(40.122)
Sold	0	0	0	(9.902)	(9.902)
Balance at end of period	36.322.831	18.847.972	4.014.448	16.473.485	75.658.737
Accumulated depreciation					
Balance at beginning of period	7.949.850	2.472.383	1.603.889	4.662.316	16.688.439
Charge for the period	481.422	392.167	162.230	664.473	1.700.291
Disposals	0	0	0	(40.122)	(40.122)
Sold	0	0	0	(6.161)	(6.161)
Balance at end of period	8.431.272	2.864.551	1.766.119	5.280.506	18.342.447
Book value					
Book value at beginning of period	27.715.290	16.038.378	2.372.151	11.070.173	57.195.993
Book value at end of period	27.891.559	15.983.421	2.248.329	11.192.980	57.316.289
Depreciation rates	1-14%	2-20%	5-35%	7-33%	

Information about the revalued properties at the end of period:

	30.06.2019	31.12.2018
Revalued book value	111.205	109.707
Impact of the special revaluation	(54.075)	(53.268)
Book value without impact of revaluation	57.130	56.439

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

	Assessment value	Insurance value
Consolidation		
Buildings and sites	25.981.015	56.017.843
Machinery and equipment, asset insurances		12.137.098
Other insurances		750.822
Halt insurance		20.788.586

Notes

9. Intangible assets and amortization

Consolidation	Usage agreement on facilities	Usage agreement on runways	Software and Development cost	Total
Cost				
Balance at beginning of period	477.035	5.706.000	1.181.224	7.364.259
Reclassified	0	0	97.715	97.715
Additions	0	0	52.838	52.838
Balance at end of period	477.035	5.706.000	1.331.777	7.514.812
Amortization				
Balance at beginning of period	159.055	1.902.513	337.516	2.399.084
Reclassified	0	0	97.715	97.715
Charge for the period	7.950	95.087	72.744	175.780
Balance at end of period	167.004	1.997.601	507.974	2.672.579
Book value				
Book value at beginning of period	317.980	3.803.487	843.708	4.965.176
Book value at end of period	310.031	3.708.399	823.803	4.842.233
Depreciation rates	3,3%	3,3%	0-10%	

Due to the development of software intended for sale on the global market in the coming years, the development cost amounts to approximately ISK 62,5 million which was capitalised in calendar years 2012 to 2015. The software development was completed in the second half of calendar year 2015 and are available 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 Ltd., now Isavia Ltd. and The Icelandic Defence Agency, now the Icelandic Coast Guard, signed on April 22nd 2009, the Company would take over certain NATO inventory airport facilities and equipment at Keflavik from the beginning of 2009 for the next 30 years. No fees will be charged for the usage but the Company must cover all costs of daily operations and maintenance expenses, to ensure the conditions are in accordance with the regulated standards by The International Civil Aviation Organization. On behalf of NATO inventory, the Icelandic Coast Guard has the right to use these facilities of which the usage rights are recognised proportionately over the lease term.

10. Right of use asset

Right of use assets are recognized in accordance with International Financial Reporting Standard IFRS 16. Information regarding the Standard can be found in note 2. Analysis of right of use assets for the period is specified as follows:

Right of use assets at January 1st, 2019	181.910
Change for the period	34.973
Amortization	(30.929)
Indexation	2.656
Balance at end of period	188.609

11. The Consolidation

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

	Ownership%	Nominal amount	Principal activity
Shares in subsidiaries			
Duty Free Store ehf., Keflavik Airport	100,00%	50.000	Retail and commerce
Tern Systems ehf., Kopavogur	100,00%	80.000	Software and consulting
Domavia ehf., Reykjavik	100,00%	500	Real estate business
Suluk ApS., Greenland	100,00%	1.999	Services of air traffic controllers

Notes

12. Bonds

	30.06.2019	31.12.2018
Bonds	168.992	190.481
Current maturities	(37.980)	(37.514)
	<u>131.013</u>	<u>152.967</u>

Maturities of bonds are specified in the following years:

	30.06.2019	31.12.2018
Period 1.7 2019 - 30.6 2020 / 1.1 2019 - 31.12 2019	37.980	37.514
Period 1.7 2020 - 30.6 2021 / 1.1 2020 - 31.12 2020	38.339	37.852
Period 1.7 2021 - 30.6 2022 / 1.1 2021 - 31.12 2021	38.714	38.205
Period 1.7 2022 - 30.6 2023 / 1.1 2022 - 31.12 2022	24.106	38.575
Period 1.7 2023 - 30.6 2024 / 1.1 2023 - 31.12 2023	9.516	8.961
Period 1.7 2024 - 30.6 2025 / 1.1 2024 - 31.12 2024	9.944	9.364
Maturities later	10.392	20.011
	<u>168.992</u>	<u>190.481</u>

13. Inventories

	30.06.2019	31.12.2018
Goods for resale	638.659	623.666
Goods in transit	121.949	63.731
Allowance for old and obsolete inventory	(10.422)	(12.636)
	<u>750.187</u>	<u>674.761</u>
Insurance value of inventories	725.000	686.549

14. Other financial assets

Accounts receivables

	30.06.2019	31.12.2018
Domestic receivables	6.449.812	5.033.487
Foreign receivables	661.326	833.541
Allowances for doubtful accounts	(2.333.698)	(250.684)
Receivables joint finance agreement	0	408
	<u>4.777.439</u>	<u>5.616.752</u>

Allowance has been made for doubtful accounts. This allowance has been determined by management in reference to past default experience. Value of allowance for doubtful accounts are valued in accordance with IFRS 9 and is following:

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

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

On March 28, Isavia provisioned authority to prevent departure on aircraft operated by Wow air based on unpaid accumulated fees due to the airline operation at Keflavik Airport. The cessation was used in accordance to 1st paragraph of Article 136 of the Icelandic Aviation Act No 60/1998. The authority to prevent departure was applied for the airline for all unpaid accrued fees and used in accordance with Article 136, previous judgements and the application of the provision in previous years. The owner of the aircraft filed a lawsuit at the Reykjanes District Court trying to overturn the aircraft cessation which in the end the district court ruled and ordered that the cessation permit should be lifted after the aircraft owner had paid the accumulated fees belonging to the particular aircraft. Isavia was not given the opportunity to appeal the ruling to a higher court level for review which, in the Company's opinion, was significantly objectionable considering the interests that existed and the higher judicial authority had previously ruled in the company's favor. Although that ruling was unmarked for legal reasons, the opinion of a higher judicial authority remains. Due to the fact that the equivalent of a collateral for payment of accumulated fees has disappeared as a result of the ruling of the Reykjanes District Court, it was considered appropriate to write-down the claim in the amount of ISK 2,081 million. That write-down, however, does not change the Company's view that the decision of the District Court on the refusal to postpone the legal effect in that ruling is significantly objectionable. Isavia intends to continue seeking ways to override the ruling of the Reykjanes District Court.

Notes

14. Other financial assets (continued)

Aging and allowance for doubtful accounts

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

30.6.2019				
	Expected credit loss	Gross amount	Allowance	Book value
Past-Due status				
Receivables not yet due	1%	2.828.568	35.451	2.793.117
Receivables, past-due 1-90 days	13%	1.483.337	199.496	1.283.842
Receivables, past-due 91-180 days	54%	1.139.664	615.978	523.686
Receivables, past-due 181-270 days	97%	942.062	911.438	30.623
Receivables, past-due 271 days and older	80%	717.506	571.335	146.171
Total		7.111.137	2.333.698	4.777.439
31.12.2018				
	Expected credit loss	Gross amount	Allowance	Book value
Past-Due status				
Receivables not yet due	1%	3.235.433	46.219	3.189.214
Receivables, past-due 1-90 days	4%	1.359.379	55.940	1.303.439
Receivables, past-due 91-180 days	10%	1.090.644	113.468	977.175
Receivables, past-due 181-270 days	17%	52.913	8.797	44.116
Receivables, past-due 271 days and older	20%	129.066	26.259	102.807
Total		5.867.436	250.684	5.616.752

Other receivables

	30.06.2019	31.12.2018
Value added tax, receivables	5.378.674	5.214.471
Prepaid expenses	115.125	87.424
Capital income tax	29.210	18.312
Accrued interest	46.670	0
Prepaid salaries	48.271	51.355
Other receivables	442.209	382.827
	6.060.159	5.754.389

The company's claim for value added tax consists mainly of unprocessed VAT reports from the Directorate of Internal Revenue for the period September 2016 to December 2018. The Directorate of Internal Revenue has questioned the validity of the assumption of value added tax registration that the company serves international flights at Keflavík Airport, according to Article 12 in the Act on Value Added Tax, and the company does not therefore have the right to use a zero tax rate method and get VAT refunded from purchased supplies and services at the same time. The company fully disagrees with the Directorate of Internal Revenue and believes that this important assumption was in place when the company was established. The Directorate of Internal Revenue has not ruled on the matter. The published financial statement for 2018 takes into account the methodology that has been applied since the company was founded in 2010.

If the ruling of the matter becomes unfavorable for the company, the impact can be significant. The estimated effect on the financial statements will be an increase in tangible fixed assets by 4.623 million ISK and about 924 million ISK decrease in equity or 739 million ISK if tax effects are taken into consideration.

Changes have been made to the Value Added Tax Act that eliminates all doubt about the company's authorization to apply the methodology that has been applied since the establishment of the company. This change came into force on January 1st, 2019. Different interpretations of the company and the Director of Internal Revenue on the provisions of the VAT act now only relate to the submission of value added tax reports for the period from September 2016 to December 2018 or until the time the amendment to the Act came into force.

Notes

14. Other financial assets (continued)

Bank balances and cash

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

	30.06.2019	31.12.2018
Bank balances in ISK	1.984.583	1.624.126
Bank balances in foreign currencies	1.579.220	2.803.972
Redemption accounts	1.005.017	1.001.250
Cash	10.643	6.779
	<u>4.579.462</u>	<u>5.436.127</u>

15. Equity

Share capital is specified as follows:

	Shares	Ratio	Amount
Total share capital at end of period	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.

16. Long term borrowings

	Loans from credit institutions	
	30.06.2019	31.12.2018
Debts in EUR	32.294.759	27.851.711
Debts in USD	0	2.892.813
Debts in ISK	5.838.239	6.016.029
	<u>38.132.998</u>	<u>36.760.553</u>
Amount due for settlement within 12 months	(5.365.580)	(3.133.778)
	<u>32.767.419</u>	<u>33.626.775</u>

Installments of non-current liabilities are specified as follows:

	Loans from credit institutions	
	30.06.2019	31.12.2018
Installments 1.7.2019 - 30.6.2020 / 1.1.2019 - 31.12.2019	5.365.580	3.133.778
Installments 1.7.2021 - 30.6.2021 / 1.1.2020 - 31.12.2020	3.377.309	5.068.473
Installments 1.7.2021 - 30.6.2022 / 1.1.2021 - 31.12.2021	1.490.292	1.494.920
Installments 1.7.2022 - 30.6.2023 / 1.1.2022 - 31.12.2022	1.447.047	1.408.541
Installments 1.7.2023 - 30.6.2024 / 1.1.2023 - 31.12.2023	1.982.918	1.669.171
Installments later	24.469.852	23.985.670
	<u>38.132.998</u>	<u>36.760.553</u>

17. Lease accounting

Lease accountings are the Company's liabilities recognized in accordance with International Financial Reporting Standard IFRS 16. Information regarding the Standard can be found in note 2. Analysis of right of use assets for the period is specified as follows:

Leases at January 1st, 2019	181.910
Additions	34.735
Maturities of leases	(29.252)
Indexation	2.656
	<u>190.049</u>
Current maturities of Leases 1/7 2019 - 30/6 2020	(57.886)
Balance at end of period	<u>132.163</u>

Notes

18. Deferred tax liability

	Deferred tax liabilities
Opening balance at beginning of period	2.138.638
Joint taxation influence	(1)
Income tax payable for the period	(1.469)
Calculated income tax for the period	<u>(648.681)</u>
Balance at end of period	<u>1.488.487</u>

Deferred tax balances consist of the following account balances:

	Deferred tax liabilities
Property, plant and equipment	2.515.859
Current assets	(406.224)
Deferred exchange rate difference	132.649
Other items	9.015
Tax loss carried forward	<u>(762.812)</u>
	<u>1.488.487</u>

19. Other financial liabilities

Accounts payable

	30.06 2019	31.12 2018
Domestic accounts payable	1.071.233	1.508.057
Foreign accounts payable	430.630	350.523
Accounts payable - Joint finance agreement	43.701	0
	<u>1.545.564</u>	<u>1.858.581</u>

Other current liabilities

	30.06 2019	31.12 2018
Value added tax, payable	30.605	30.388
Tax, payable	569.582	0
Accrued pension contribution to The Pension Fund for State Employees	119.410	295.460
Salaries and related expenses payable	1.687.044	696.103
Accrued holiday commitment	1.683.018	1.304.353
Accrued interest, payable	143.779	159.662
Unfinished contracts	13.971	37.004
Deferred revenue	240.052	239.699
Other liabilities	93.803	92.097
	<u>4.581.264</u>	<u>2.854.767</u>

Current maturities of long-term liabilities

	30.06 2019	31.12 2018
Loans from credit institutions	5.365.580	3.133.778
	<u>5.365.580</u>	<u>3.133.778</u>

20. Other obligations

The company has guaranteed a bank guarantee of its subsidiary, Tern System ehf., in the amount of 1,6 million USD. The bank guarantee is because of Tern System ehf. contractor agreements.

21. Approval of financial interim statements

The Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on September 26th, 2019.