Annual Report **2011**

isavia

The annual report of Isavia for 2011 is partly in electronic form. In this way, the company wants to minimise printed versions and be more environmentally friendly.

The electronic part of the annual report of Isavia is accessible at the web address: ***www.isavia.is/annualreport***

Contents

Address of the Chairman of the Board of Directors

The first complete operating year of Isavia has been characterised by great turmoil and changes in the operating environment. The company received its baptism of fire during the time of the merger in spring 2010 when it managed operations in response to the eruption in Eyjafjallajokull. This was a time of great challenge; a large part of the air space over Iceland was closed, Icelandair's connecting flights were for that reason temporarily transferred out of the country, and European flights were transferred to Akureyri. During the Grimsvotn eruption in spring of 2011, the experience from the previous year was put to use, and people were therefore better prepared and more in control of the situation. Air space closures were much less extensive, and disruptions to the operations of airports in Iceland were minimal considering the circumstances. This has been noticed internationally and within the International Civil Aviation Organisation, and it is believed that matters were handled sensibly. A number of Isavia employees played a large part in how successfully the situation was dealt with.

2011 saw significant and unprecedented growth in international flight operations; for example, traffic through Keflavik Airport increased by 18% between years. The increase has strengthened the financial basis of the company considerably, so that revenue from Keflavik Airport just about covers its operational expenses. It is expected that still further increases in traffic will occur in the coming years, and costly projects must be undertaken to expand the infrastructure of the air terminal and airport in phases. Preparations for are already underway. The operation of the domestic airport system is a different matter. That system is by nature more difficult to operate due to fewer passengers, number of landing strips, and increased airport operations and safety requirements. State funding has not kept up with cost increases, and it therefore looks as though the operation of a few airports and/or landing strips will need to be terminated in the near future. This, though, is not a decision of Isavia, but rather that of the transport authorities which determine the level of service in the domestic airport system.

Isavia handles the domestic operations on the basis of a service agreement with the Ministry of the Interior and is obligated to perform as well and as economically as budget resources allow.

A slight increase occurred in air traffic over Iceland in 2011. Isavia handles control of air traffic in the upper air space over a large part of the north-eastern North Atlantic according to an agreement with the International Civil Aviation Organisation. This service provides employment to between one hundred and two hundred people, including air traffic controllers, technicians, and office personnel on the Isavia staff, and generates more than ISK 3,3bn in net foreign exchange earnings for the national economy. This agreement must be well looked after, because the outlook for the organisation of these services is uncertain in the near future, as various nations would very much like to perform the service themselves.

On the whole, the company can be rather pleased with the results of the operations in 2011. Profits before depreciation and financial items are approximately ISK 3.6bn or about 22% of income, and profits after taxes amount to around ISK 600m. The fund creation is sufficient for the projects which are believed necessary, but, in the long term, the capital formation is insufficient if it is to cover all necessary investments. The performance of the company, though, can be considered good, in view of the fact that Icelandic society is dealing with the deepest economic crisis in the history of the republic.

It is safe to say that the future looks bright for Isavia. The company has great human resources; the staff consists of well educated professionals with the ambition to be at the forefront in their field internationally. An example of the success of the company is the result of a service survey conducted by Airports Council International where Keflavik Airport landed in first place among European airports in its size class last year.

The merger of companies into Isavia in 2010 proved to be a successful decision. The company has managed to streamline and economise its operations to the worth of hundreds of millions ISK. The operation has become stronger both financially and professionally and Isavia is one of the 40 largest companies in Iceland based on revenue.

At the annual meeting of Isavia on 5 May 2011, the resolutions of the company were changed with the number of Board Directors and Alternate Board Directors reduced from seven to five, each.

The following Board Directors were elected: Arnbjorg Sveinsdottir, municipal representative and substitute member of parliament; Asta Rut Jonasdottir, business administrator; Jón Nordfjord, managing director; Ragnar Oskarsson, upper secondary school teacher; and Thorolfur Árnason, engineer. Alternate Board Directors: Arngrimur Johannsson, Jonas Bjarnason, Johanna Harpa Arnadottir, Olafur Sveinsson, and Sigrun Palsdottir.

The first Board meeting after the annual meeting assigned tasks and elected Thorolfur Arnason as Chairman and Ragnar Oskarsson as Vice-Chairman.

The Board has convened for eleven meetings since the annual meeting was held in 2011. Regular meetings are held on the last Thursday of each month. Alternates were specifically asked to attend the December meeting when the company's operating budget for 2012 was discussed, as well as the meeting on 29 March 2012 when the financial statements for 2011 were finalised.

The Board is resolved to visit the company's principal operating units at regular intervals and to conduct Board meetings at those different locations in Iceland. A Board meeting was held in Isafjordur on 29 September 2011, and the members of the Board met with airport staff and familiarised themselves with the operations of the airports in Isafjordur and Thingeyri. Issues concerning the airports in the Westfjords were reviewed with the District Manager, and discussions took place on the future of individual airports, operating and streamlining projects upcoming in the district, and the need for construction projects and improvements at the airports.

Also discussed were possibilities for increasing traffic through Isafjordur Airport, such as in connection with development of services for the settlements in East Greenland which would possibly be operated from Isafjordur.

The Board also met with the mayor and municipal representatives of Isafjordur as well as leaders in tourism in the northern Westfjords to discuss common interests. Board meetings were in other respects held alternately at Reykjavík Airport and Keflavik Airport.

Planning

One of the larger regular projects of the Isavia Board is planning at the country's airports, and in this regard, planning at Keflavik International Airport is most comprehensive. At Keflavik, the company, along with the planning committee of the airport, holds planning authority at the municipal level, that is, the zoning plan and detailed land-use plan are completed at the responsibility and cost of Isavia. Work is taking place on a new zoning plan for the airport which is planned to enter into effect in 2013. Everything is taken into account, as this is the first review of the plan since the U.S. military left Iceland in the fall of 2006. Fundamental questions concerning the future and development of the airport are dealt with, such as the number of runways and their position, development and expansion of the Leif Eiriksson Air Terminal, and what should be done with large ramps and structures in the east part of the airport where the old air terminal and the large hangar from the time of the defence force are located. There are some opportunities for developing aviation related operations in the area, and the work on the zoning plan is meant to define possible operations and their extent.

The Board has also discussed planning and development at Reykjavík Airport. An agreement on development in the present air terminal area is being prepared, and it is presumed that the present air terminal will be reconstructed.

Isavia will most likely lead this project. Also, it will hopefully not be long until modern facilities will be constructed for the operators of domestic flights. Such facilities have been sorely lacking for numerous years. The plan is to construct the facilities in such a way that it will be fairly easy to change them to serve a different purpose in the event that Reykjavík Airport will be shut down in the future. Only time will tell what the future holds for Reykjavík Airport, but it is however clear that if it will be shut down, a new airport of this size will not be built, either at Holmsheidi Heath or on Longusker Reef. In this event, scheduled flight operations will be transferred to Keflavik, but a special private and training airport would have to be built on the southwest corner of Iceland due to the excessive air traffic which this move to Keflavik would cause. Isavia would presumably handle that project.

Personnel

One of the issues which the Board has great interest in and views as its task is to strengthen the great group of employees. The Board is aware that amidst all the merger-related turmoil of recent years it is not a certainty that a strong and unified group will emerge. The Board has placed an emphasis on effectively managing matters of personnel; education and training have been prominent, a health strategy, equal rights strategy, and code of conduct have been implemented, wage agreements are stable, and every effort is made to successfully resolve any problems which arise. It has been interesting to observe the implementation of the "basic airport" concept which involves integrating multiple jobs at airports into one. This has, for example, brought about fundamental changes in rescue and fire fighting services at the largest Isavia airports with changed job descriptions.

A comprehensive employee survey was conducted among this past winter with the purpose of trying to find out their attitude towards the company and their own work. The intent is to use the results of the survey to make Isavia an even better workplace and to tighten the group of employees.

The stated goal of Isavia is to provide aircraft operators and other entities that require access to airports, our customers and their customers with safe and convenient airports, air navigation services, and related activities. Our services aim to be safe, economical, and by highest international standards.

Travel Sector

As part of the policy formulation of the company two years ago, it was decided that it would join the Icelandic Travel Industry Association - SAF which is a member of the Confederation of Icelandic Employers. This action underlined that the company is a part of the Icelandic travel sector, and it is currently the second largest company within SAF. At the annual meeting of SAF on 22 March 2012, a representative of Isavia was elected to serve on the board of the Association, and it is truly a turning point that the second largest company within SAF has a representative on the board. The voice of Isavia will thus be heard within the travel sector, and the company can more strongly support issues in this area.

Isavia actively participates in increasing the number of tourists who travel to Iceland and has implemented an incentive program for attracting airlines based on operations outside of the high season and on passenger increases. This initiative has generated good results with new air routes and destinations. Isavia is also a participant in the project "Inspired by Iceland" along with other major tourism companies.

The project aims at attracting tourists to Iceland outside the summer season. The company supplied ISK 20m to the project in the past year. Also, in this area, it is being examined how the company's influence can be used to increase air traffic through the largest rural airports, i.e., at Akureyri and Egilsstadir. This summer, Icelandair will fly four times a week with F50 airplanes between Keflavik and Akureyri, connecting with its route system to Europe and North America. Iceland Express will this summer continue direct flights between Akureyri and Copenhagen, and, in addition, a few flights with Iceland Express will take place between Egilsstadir and Copenhagen. Work is also underway on increasing the frequency of flights between Reykjavik and Greenland, and possibilities of flights between Isafjordur and East Greenland are being explored.

Finally

The Icelandic travel sector has begun its greatest push forward in a long time. Isavia and its predecessors have played a large role in the development which serves as the foundation for success. For this to continue, the company must be strong and prepared to resolve any project which Icelandic society chooses to assign to its national airport operation and air navigation company.

I wish to thank the Board of directors, Managing Director, Bjorn Oli Hauksson and the entire staff for the great work and collaboration in the past operating year.

Thorolfur Arnason, Chairman

Board of Directors and Managing Director of Isavia, from the left: Thorolfur Arnason, Ragnar Oskarsson, Jon Nordfjord, Asta Rut Jonasdottir, Bjorn Oli Hauksson, and Arnbjorg Sveinsdottir.

Roles of Divisions

The Air Navigation Services Division provides Icelandic and foreign aircraft with air traffic and air navigation services on domestic and international routes over the North Atlantic. The Icelandic control area is one of the largest in the world, approximately 5.4 million square kilometres.

The Airport and Infrastructure Division conducts the operation and maintenance of all airports in the country except for Keflavik International Airport. This includes runways and buildings, machinery, airfield lighting and aviation security. The infrastructure service of the Division provides specialised support to other operating divisions concerning facilities construction and maintenance.

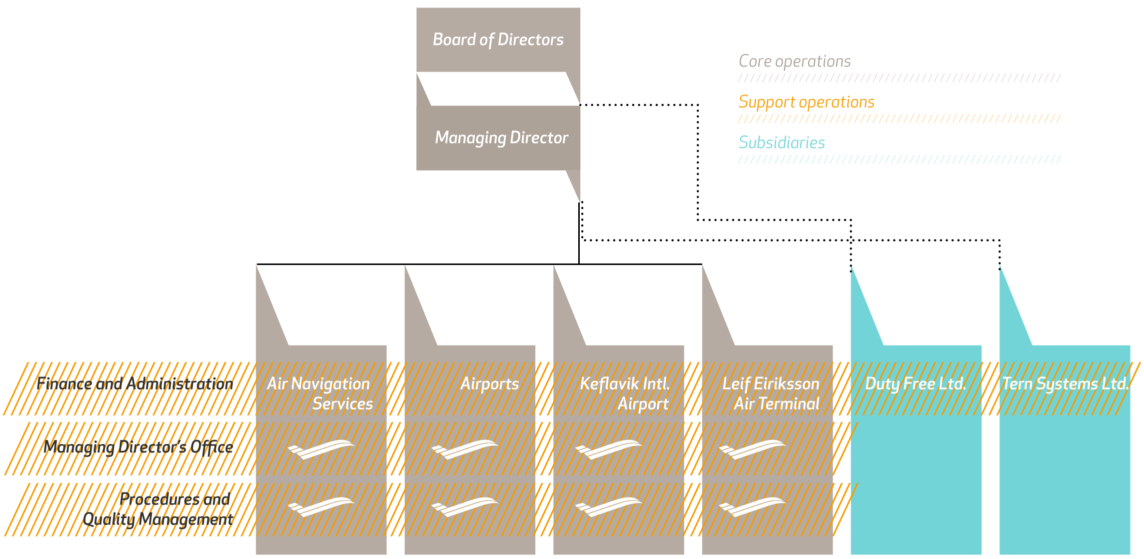
Keflavik International Airport conducts the airfield operations, maintenance, clearing and supervision of aircraft operating areas; operation, maintenance, and supervision of the visual navigation equipment and oil separators; bird and animal control; operation of jet aircraft arresting gears; apron management; and SLOT allocation; together with the operation of a maintenance shop and fire and rescue services.

The Leif Eiriksson Air Terminal conducts the operation, maintenance, and development of the air terminal, including the sale of duty-free goods in the airport area, support for service providers in the air terminal, business directly involving aircraft operation, aviation security as well as other operations within the Airport Security Restricted Area.

The Finance and Administration Division operates services across all the operating units of the company. The Division is divided into office, financial and personnel services, business development, and systems support. The Division supervises the accounting and finances of the company, and administers human resources, training and education, industrial safety, wage issues, and general matters of personnel. Finance and Administration also performs marketing and company promotion.

The Director's Office provides support to the Board of Directors, Managing Director, and operating divisions. The office handles projects involving policy formulation and coordination of the activities of operating divisions in the fields of legal affairs, government relations, contracting, and international research and development. The Office oversees coordination and policymaking concerning airport services and security, zoning and development, municipality relations and provides administration support for the Board of Directors of Isavia, The Duty Free Store and Tern Systems. The Director's Office is also responsible for service contracts, defence programs, and company files.

The Procedures and Quality Department operates in connection with the Director's Office and handles overall planning and coordination of the safety and quality issues of the company. The Department oversees that system descriptions and procedures are in compliance with related requirements and handles active monitoring and aberration correction. Environmental issues are also handled by the Procedures and Quality Department.



Key Figures

FROM THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2011	2010
Revenue	16.511	14.136
Ebitda	3.653	3.045
Ebit	2.302	1.723
Financial income/expenses	–1.542	843
Profit before taxes	760	2.567
Operating profits	604	2.125

FROM THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
Property, plant, and equipment	21.615	22.017
Assets	32.520	32.069
Equity	10.917	10.302
Interest bearing liabilities	17.728	18.348
Current ratio	1,21	1,01

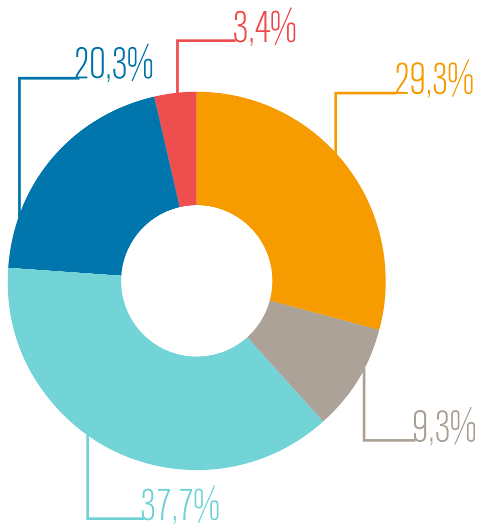
FROM THE CONSOLIDATED STATEMENT OF CASH FLOWS		
Operating activities	3.545	1.590
Investing activities	–725	–715
Financing activities	–1.721	–1.247
Cash and cash equivalents at end of the period	2.609	1.506

FINANCIAL INDICATORS		
Contribution margin on operation	22%	22%
Profit margin on operating revenue	4%	15%
Rate of return on assets	0,51	0,43
Return on equity	6%	23%
Earnings per share	11%	38%
Equity ratio	34%	32%

Amounts in ISK millions

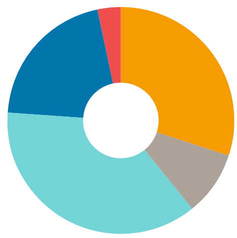
Total Income

// **2011**



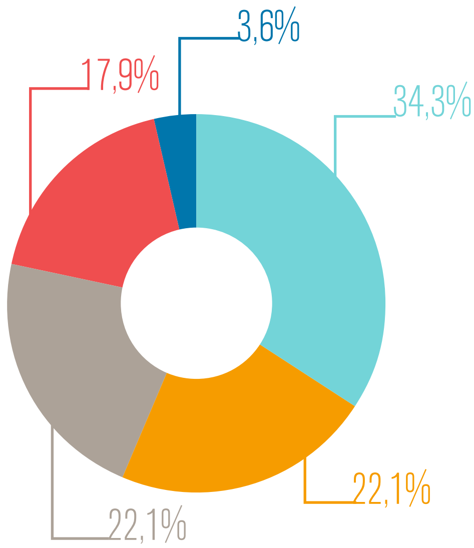
// Airport services // Facilities // Sales
// International air navigation services
// Other services

// **2010**



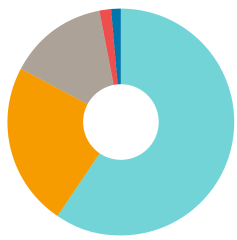
Airport Services

// **2011**



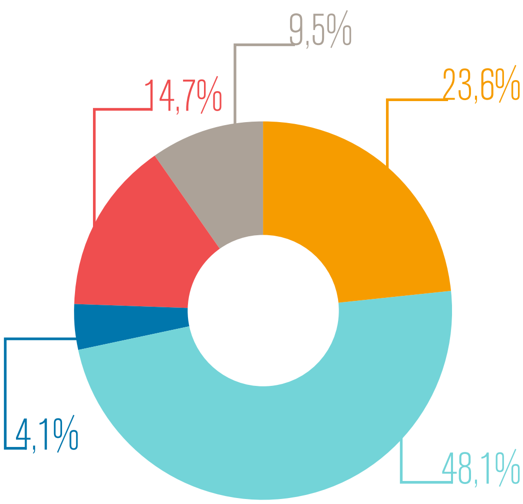
// Government service agreement // Landing fees
// Airport security fees // Passenger fees // Other fees

// **2010**



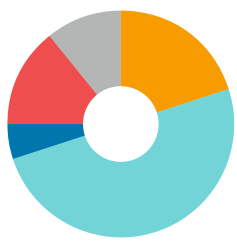
Operating Cost

// **2011**



// Sales cost // Wages // Administration
// Other operating costs // Depreciation

// **2010**



Financial Highlights

The revenue of Isavia derives from air traffic, airport services, retail operations, and a service agreement with the Ministry of the Interior for operation of airports, in addition to other income, such as property income. The income of the company has increased by 16.8%, from ISK 14,136m in 2010 to ISK 16,511m in 2011. The greatest increase occurred in income from airport services which grew by 83%, but income from the service agreement with the Ministry of the Interior decreased by 33%. The change is on account of the discontinuation of airport taxes and alternate airport charges which came into effect on 18 May 2011, at which time passenger fees were levied which go directly towards the operations of each airport. The number of passengers at Keflavik International Airport increased by 18%, whereof departing passengers increased by 9%. The increase in passengers resulted in both higher passenger income and retail and property income for the company. The retail income of the Duty Free Store amounted to ISK 6,219m compared with ISK 5,232m in 2010 which is an increase of 18,9 percent and is in line with the increase in passenger volume. It should be mentioned that the increase in so-called transit passengers, that is, passengers who go through the air terminal in a very short time but do not enter the country, is approximately 20%, and it has been difficult to get them to visit the shops of the company. The shops in the Duty Free Store which these passengers have visited the most have been refurnished with the aim of marketing Iceland and selling Icelandic products. This action has been very successful. Income from the International Air Navigation Service, which is in accordance with the Joint Financing Agreement with twenty-three member states of the International Civil Aviation Organisation, amounted to ISK 3,350m in 2011 which is a 16% increase from 2010.

Division of Income

	2011	2010
Air navigation service	3.350	2.893
Airport service	3.117	1.700
Property income	1.539	1.287
Retail income	6.219	5.232
Service agreement with the Ministry of the Interior	1.717	2.573
Other income	570	450

* Amounts in ISK million

Profits before depreciation, interest, and taxes amounted to ISK 3,653m, or a 22.1% contribution margin on operation compared to a 21,5% contribution margin in 2010. Operating cost has increased by 16% between years or from ISK 11,091m to ISK 12,858m. Thereof, cost of goods sold has increased by 34% between years due to higher sales but also because of new taxation on the operation of the arrivals shop of the Duty Free Store which came into force on 1 January 2011. The Duty Free Store now pays 10% of the alcohol fee which is in effect at each time and 40% of the tobacco fee. This, though, only applies to products sold in the arrivals shop. In 2011, the Duty Free Store therefore generated approximately ISK 281m in tobacco and alcohol fees for the state treasury. Wage cost also increased considerably or by around 10%. A special charge due to pension rights from when the former Flugstodir ltd was founded in 2007 was charged in full, a total of ISK 227m for the years 2007-2010. Full-time equivalents have also gone up from 707 to 729, mostly because of increased activities at Keflavik International Airport.

Total comprehensive income for the year 2011 is ISK 604m which is a decrease of ISK 1,520m from the previous year. The main influence in this reversal is changes in financial expenses, as the devaluation of the krona resulted in indexation and exchange rate differences amounting to ISK 944m. The strengthening of the krona in 2010 generated an exchange rate gain of ISK 1,399m, and this is therefore a reversal amounting to ISK 2,343m.

The book value of the total assets of Isavia at year-end 2011 was ISK 32,520m, of which fixed assets accounted for ISK 27,896m. The company's net liabilities, that is, liabilities less current assets, were ISK 16,979m. Net liabilities have decreased by ISK 1,379m between years. Loans were paid off to the amount of ISK 1,712m, but the weakening of the Icelandic krona increased the company's debt position by ISK 1,013m. Current maturities of long-term loans amount to around ISK 1,356m. The company's equity ratio at year-end 2011 was 33.6% as compared to 24.6% on its establishment in 2010.

Investments and major maintenance work have for the most part not occurred for the second year in a row; for example, because of great uncertainty concerning the revenue basis of the company as well as its capital structure. The company is heavily indebted, and it is difficult to undertake large projects unless a large part of the cost can be covered by operations. A rather strong cash position has now been built, so that, for example, an expansion of the Leifur Eiriksson Air Terminal can be undertaken, equipment renewed which is becoming quite expensive to operate, and the preparation of a comprehensive maintenance plan for the runways at Keflavik International Airport can be started, if the conclusion is reached that Isavia shall handle the runway improvements. This is not assumed in the utilisation agreement of the company.

Independent Auditor's Report

To the Board of Directors and shareholders of Isavia ohf.

We have on behalf of The Icelandic National Audit Office audited the accompanying Consolidated Financial Statements of Isavia ohf., which comprise Statement of Financial Position as at 31 December 2011, 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

Management and the board of directors is 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 management 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 judgment, 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 of 31 December 2011, 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.

Keflavík Airport, 29 March 2012

Deloitte ehf.

Anna Birgitta Geirfinnsdóttir	Guðmundur Kjartansson
State Authorized Public Accountant	State Authorized Public Accountant

Statement by the Board of Directors and managing director

Isavia ohf was established in 31 January 2010 and is a government owned public limited company and complies with the Icelandic limited companies law no. 2/1995. The company domicile and venue is located at Reykjavik Airport. The company was formed when two companies Keflavikurflugvöllur ohf. and Flugstoðir ohf. were merged together, the merger is based on law no. 153/2009. The merger between the two companies was finalized at 31 January 2010, and is effictive from 1 January 2010. Flugfjarskipti ehf., Isavia´s ohf. subsidiary merged with the company at 1 July 2010.

The Consolidated Financial Statements for the year 2011 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 16.511 million. Total comprehensive income for the year amounted to ISK 604 million. According to the Consolidated Statements of Financial Position, assets amount to ISK 32.520 million, the year's end book value of equity is ISK 10.917 million and the Company's equity ratio is 33,57%.

At year-end, there was one shareholder in the Company, the Treasury of Iceland which is the same as when the Company was established.

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 2011.

Keflavík Airport, 29 March 2012

Board of Directors

Þórólfur Árnason
Chairman of the Board

Arnbjörg Sveinsdóttir

Jón Norðfjörð

Ásta Rut Jónasdóttir

Ragnar Óskarsson

Managing director

Björn Óli Hauksson

Consolidated Statements of Comprehensive Income 2011

	Notes	Consolidation 2011	2010
Operating revenues	4	16.511.046.802	14.135.853.449
Cost of goods sold		(3.349.133.205)	(2.502.617.146)
Salaries and related expenses	5	(6.833.415.293)	(6.193.813.269)
Administrative expenses		(585.187.660)	(617.712.535)
Other operating expenses		(2.090.600.790)	(1.777.083.000)
Depreciation and amortization	8,9	(1.350.681.831)	(1.321.226.252)
Operating profit		2.302.028.023	1.723.401.247
Financial income	6	181.890.343	218.640.386
Financial expenses	6	(779.769.782)	(774.023.211)
Net gain arising on financial assets and liabilities	6	(944.456.148)	1.398.578.668
Profit before taxes		759.692.436	2.566.597.090
Income tax	7	(155.638.990)	(442.216.088)
Total comprehensive income for the year		604.053.446	2.124.381.002
Total comprehensive income attributable to:			
Owners of the Company		605.873.859	2.125.176.944
Non-controlling interests		(1.820.413)	(795.942)
		604.053.446	2.124.381.002

Consolidated Statements of Financial Position

Assets		**Consolidation**	
	Notes	**31.12.2011**	**01.01.2011**
Non-current assets			
Property, plant and equipment	8	21.614.940.701	22.016.631.821
Intangible assets	9	6.052.270.939	6.224.146.206
Bonds and other long term assets	11	146.487.201	182.741.353
Deferred tax assets	18	82.286.900	236.848.317
		27.895.985.741	28.660.367.697
Current assets			
Inventories	12	399.412.623	369.920.223
Accounts receivables	13	1.178.826.457	1.063.860.059
Current maturities of long term assets	11	68.433.787	89.634.609
Other receivables	13	368.374.100	378.975.750
Bank balances and cash	13	2.608.984.866	1.506.340.263
		4.624.031.833	3.408.730.904
Total assets		32.520.017.574	32.069.098.601

Equity and liabilities			
Equity			
Share capital	14	5.589.063.362	5.589.063.362
Statutory reserves		2.483.798.000	2.483.798.000
Revaluation reserves		52.465.520	55.156.060
Retained earnings		2.783.923.808	2.175.359.409
Equity attributable to owners of the company		10.909.250.690	10.303.376.831
Non-controlling interests		7.434.904	(1.143.819)
Total equity		10.916.685.594	10.302.233.012
Non-current liabilities			
Loans from credit institutions	15	17.723.942.616	18.342.130.504
Obligations under finance leases	16	3.900.386	5.579.247
Deferred tax liabilities	18	38.519.313	32.875.072
		17.766.362.315	18.380.584.823
Current liabilities			
Accounts payable	19	859.093.358	530.873.228
Government treasury		131.522.115	389.971.326
Current maturities of non-current liabilities	19	1.355.795.677	1.356.803.204
Current tax liabilities	7	15.520.453	20.087.121
Other current liabilities	19	1.475.038.062	1.088.545.887
		3.836.969.665	3.386.280.766
Liabilities		21.603.331.980	21.766.865.589
Total equity and liabilities		32.520.017.574	32.069.098.601

Consolidated Statements of Changes in Equity

	Share CapitalS	tatutory reserves	Revaluation reserves	Retained earnings	Non-controlling interests	Total Equity
Opening balance at 1 January 2010 ..	5.589.063.362	2.483.798.000	0	50.182.465 (	347.877)	8.122.695.950
	5.589.063.362	2.483.798.000	0	50.182.465 (	347.877)	8.122.695.950
Revaluation of subsidiaries assets	0	0	55.156.060 0	0	5	5.156.060
Comprehensive income	0	0	0	2.125.176.944(	795.942)2	.124.381.002
Balance at 31 December 2010	5.589.063.362	2.483.798.000	55.156.060 2	.175.359.409 (	1.143.819)	10.302.233.012
Opening balance at 1 January 2011 ..	5.589.063.362	2.483.798.000	55.156.060 2	.175.359.409 (	1.143.819)	10.302.233.012
Transfer to retained earnings	0	0	(2.690.540)	2.690.540	0	0
Additional non-controlling interests ...	0	0	0	0	10.399.136 1	0.399.136
Comprehensive income	0	0	0	605.873.859 (	1.820.413)	604.053.446
Balance at 31 December 2011	5.589.063.362	2.483.798.000	52.465.520 2	.783.923.808 7	.434.904 1	0.916.685.594

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

Consolidated Statements of Cash Flows

	Notes	Consolidation 2011	Consolidation 2010
Cash flows from operating activities			
Operating profit		2.302.028.023	1.723.401.247
Depreciation and amortization	8,9	1.350.681.831	1.321.226.252
Long term assets expensed	11	68.630.727	57.924.552
Gain on disposal of assets		4.552	(13.620.562)
Operating cash flow before movement in working capital		3.721.345.133	3.088.931.489
Increase in inventories		(34.993.854)	(48.081.422)
Increase in operating assets		(172.579.310)	(375.624.598)
Decrease in operating liabilities		490.978.238	(548.792.722)
Cash generated from operations		4.004.750.207	2.116.432.747
Interest earned		336.920.155	349.144.529
Finance costs		(796.630.507)	(818.482.496)
Income taxes paid		0	(57.006.442)
Net cash generated from operating activities		3.545.039.855	1.590.088.338
Investing activities			
Purchases/sales of property, plant and equipment	8	(712.063.077)	(646.054.514)
Purchases of intangible assets	9	(65.056.920)	(57.561.094)
Purchases of bonds		(53.111.672)	(36.518.016)
Installments on bonds		105.328.451	25.407.956
		(724.903.218)	(714.725.668)
Financing activities			
Repayments of borrowings		(1.711.985.048)	(1.237.233.794)
Repayments of obligations under finance leases		(8.950.448)	(9.449.495)
		(1.720.935.496)	(1.246.683.289)
Net decrease in cash and cash equivalents		1.099.201.141	(371.320.619)
Cash and cash equivalants at the beginning of the year		1.506.340.263	1.895.465.133
Effect of foreign exchange rates		3.443.462	(17.804.251)
Cash and cash equivalants at the end of the year		2.608.984.866	1.506.340.263

Notes

1. General information

Isavia ohf. (the Company) was established on 31 January 2010 and is a government owned public limited company and complies with the Icelandic limited companies law no. 2/1995. The company domicile and venue is located at Reykjavik Airport.

At 29 December 2009 new law no. 153/2009 was implemented on merger between the two public limited companies, Flugstoðir ohf. and Keflavíkurflugvöllur ohf. A new public limited company was to be established and according to paragraph 5 of law no. 153/2009 the newly established company shall take over all rights and obligations of the two public companies mentioned in law no. 102/2006 and law no. 76/2008. The takeover does not give the negotiating parties, which the merger may concern, permission to terminate existing contract relationships.

Isavia ohf. and Flugfjarskipti ehf. merged on 1 July 2010. Flugfjarskipti ehf. specialised in air navigation in fields of telecommunications in connection with North-Atlantic ocean flights. Flugfjarskipti ehf. was wholly owned subsidiary of Isavia ohf. and no new shares were issued due to the merger.

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., Fríhöfnin ehf. and TERN SYSTEMS hf.

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 2011, new and revised. It is the opinion of the management that application of new and revised IFRSs has not material impact on the financial statements. The Consolidated Financial Statements have not implemented new and revised IFRSs in issue but not yet effective.

Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis. Accounting policies which concerns 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. When ownership in subsidiaries is less than 100%, the non-controlling interest in the subsidiaries' profit or loss and stockholders equity at end of period are identified separately.

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 Board of Directors has an overall plan towards risk management. The Company has no interest rate or currency swap contracts outstanding at year end.

2. Summary of Significant Accounting Policies (continued)

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 interest rate applicable.

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 recognised as an expense immediately.

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 recognised 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 retranslated 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 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 pervious 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.

Buildings and sites are revalued at the end of the reporting period and the revaluation is recognised in revaluation reserves in equity. The revaluation reflects the fair value of the asset on the reporting date less any accumulated depreciation and impairment losses. On a regular basis an assasment should be made if there is a considerable difference between the revalued carrying amount and the fair value of the asset. If the fair value is lower than previously assessed revaluation it is charged to the income statement. Depreciation of revalued buildings and site are charged to the income statement.

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.

The depreciable amount of the 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 include business agreements, trademarks and 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.

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 costs 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

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.

Accounts receivables

Accounts receivables are valued at nominal value less an allowance for doubtful accounts. The allowance is deducted from accounts receivable in the balance sheet and does not represent a final write-off.

Long term liabilities

Loans from credit institutions and other non-current liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable. Interest expense is accrued on a periodical basis, based on the principal outstanding and at the interest rate applicable. Borrowing costs are recognised in profit or loss in the year they are incurred.

Accounts payable

Accounts payable are valued at nominal value and accounts payable in other currencies have been booked at the exchange rates prevailing on the balance sheet date.

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.

Provisions for product liabilites are booked at the date of sale on the relevant goods and revalued by management in accordance to expected payout which the provisions could entail.

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 amortised 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.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at

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 amortised 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.

2. Summary of Significant Accounting Policies (continued)

Financial assets

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.

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;

- 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.

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.

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.

4. Revenues

The consolidated composition of revenues, is specified as follows	2011	2010
Revenue from sales	6.218.704.149	5.232.332.361
Revenue from services	8.435.015.568	7.273.230.677
Revenue from long term assets	1.857.327.085	1.630.290.411
	16.511.046.802	14.135.853.449

5. Salaries and related expenses

	2011	2010
Salaries	5.128.162.552	4.733.899.003
Pension fund	613.010.440	633.069.648
Payroll taxes	494.982.812	463.991.650
Salary-related expenses	73.023.100	82.885.417
Pension and vaction pay obligation	375.017.797	159.689.208
Capitalized employment expenses	(14.458.448)	(29.399.236)
Other employee expenses	163.677.040	149.677.579
	6.833.415.293	6.193.813.269
Average number of employees	729	707

Additional payments because of retirement benefits obligations is explained in note no. 17. The Company´s total management salaries and benefits for the year 2011 was ISK 64,7 million compared to ISK 71,3 million for the year 2010. The Company´s CEO and Managing director of Fríhöfnin ehf. and Tern Systems hf. salaries is decided by the negotiation committee.

6. Financial income and expenses

Financial income

	2011	2010
Interest on bank deposits	51.547.179	69.721.247
Interest revenue from bonds and other long term assets	107.778.176	114.353.268
Other interest revenue	22.564.988	34.565.871
	181.890.343	218.640.386

Financial expenses

	2011	2010
Interest expense and indexation	(775.760.169)	(767.212.914)
Bank costs	(2.672.308)	(2.550.538)
Interest on late payments	(1.337.305)	(4.259.759)
	(779.769.782)	(774.023.211)

Net gain (loss) from financial assets and liabilities

	2011	2010
Net exchange rate differences	(944.456.148)	1.398.578.668
	(944.456.148)	1.398.578.668

7. Income tax

Income tax has been calculated and recorded in the Financial Statements, the amount charged in the Income Statement is ISK 155,6 million. Income tax payable in the year 2012 is ISK 15,5 million.

The effective tax rate is specified as follows:

	2011		2010	
	Amount	%	Amount	%
Profit before taxes	759.692.436		2.566.597.090	
Tax rate	(151.938.487)	20,0%	(462.130.746)	18,0%
Change in tax rate	0	0,0%	(20.397.328)	-0,8%
Other items	(3.700.503)	-0,1%	40.311.986	1,6%
Income tax acc. to Statement of Comp. Income	(155.638.990)	-20,5%	(442.216.088)	-17,2%

8. Property, plant and equipment

	Buildings and artwork	Loading bridges and car parks	Fixtures and machinery	Other assets	Total
Cost					
Balance at 1 January 2010	19.197.803.846	2.228.473.548	2.106.803.408	4.077.455.326	27.610.536.128
Revaluation	67.263.488	0	0	0	67.263.488
Additions 2010	43.901.676	83.306.241	59.218.949	478.508.360	664.935.226
Disposals 2010	0	0	0	(23.031.518)	(23.031.518)
Balance at 31 December 2010	19.308.969.010	2.311.779.789	2.166.022.357	4.532.932.168	28.319.703.324
Additions 2011	10.230.393	136.305.280	95.060.133	458.610.401	700.206.207
Disposals 2011	0	0	0	(321.124)	(321.124)
Balance at 31 December 2011	19.319.199.403	2.448.085.069	2.261.082.490	4.991.221.445	29.019.588.407
Accumulated depreciation					
Balance at 1 January 2010	2.343.175.928	535.247.823	814.187.223	1.523.407.690	5.216.018.664
Charge for the year 2010	468.181.531	95.550.447	150.067.789	388.073.009	1.101.872.776
Disposals 2010	0	0	0	(14.819.937)	(14.819.937)
Balance at 31 December 2010	2.811.357.459	630.798.270	964.255.012	1.896.660.762	6.303.071.503
Charge for the year 2011	468.181.531	95.550.447	150.067.789	388.073.009	1.101.872.776
Disposals 2011	0	0	0	(296.573)	(296.573)
Balance at 31 December 2011	3.279.538.990	726.348.717	1.114.322.801	2.284.437.198	7.404.647.706
Book value					
Book value 1 January 2011	16.497.611.551	1.680.981.519	1.201.767.345	2.636.271.406	22.016.631.821
Book value at year end	16.039.660.413	1.721.736.352	1.146.759.689	2.706.784.247	21.614.940.701
Depreciation rates	1-14%	2-20%	5-35%	7-33%	

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 sale 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.

Information about the revalued properties in year end:

	31.12.2011	31.12.2010
Revalued book value	129.989.757	136.080.000
Impact of the special revaluation	(64.572.948)	(67.263.488)
Book value without impact of revaluation	65.416.809	68.816.512

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

Consolidation	Assessment value	Insurance value
Buildings and sites	19.338.640.000	35.022.436.000
Machinery and equipment, asset insurances	0	10.087.450.205
Other insurances	0	813.115.526

The Company has pledged its real estates and sites for its borrowings from credit institutions. Mortgages by the Company with a remaining loan balance of ISK 15,7 billion at year-end 2011 are registered against the fixed assets of the Company of book value of ISK 17 billion at the same time. At year-end 2010 mortgages by the Company with a remaining loan balance of ISK 15,8 billion were registered against the fixed assets of the Company of book value of ISK 16,9 billion at the same time.

9. Intangible assets

Consolidation	Usage agreement on facilities	Usage agreement on runways	Software	Total
Cost				
Balance at 1 January 2010	477.035.000	5.706.000.000	468.528.486	6.651.563.486
Additions 2010	0	0	60.512.525	60.512.525
Balance at 31 December 2010	477.035.000	5.706.000.000	529.041.011	6.712.076.011
Additions 2011	0	0	76.933.789	76.933.789
Balance at 31 December 2011	477.035.000	5.706.000.000	605.974.800	6.789.009.800
Amortization				
Balance at 1 January 2010	15.901.167	190.200.000	50.103.819	256.204.986
Charge for the year 2010	15.901.167	190.200.000	25.623.654	231.724.821
Balance at 31 December 2010	31.802.334	380.400.000	75.727.472	487.929.806
Charge for the year 2011	15.901.168	190.200.000	42.707.887	248.809.056
Balance at 31 December 2011	47.703.502	570.600.000	118.435.359	736.738.862
Book value				
Book value 1 January 2011	445.232.667	5.325.600.000	453.313.538	6.224.146.206
Book value at year end	429.331.498	5.135.400.000	487.539.441	6.052.270.938
Depreciation rates	3,3%	3,3%	20%	

According to an agreement between Keflavíkurflugvöllur ohf. and The Icelandic Defence Agency which was signed on 22 April 2009, Keflavíkurflugvöllur ohf. took over certain NATO facilities and equipment for the next 30 years from the beginning of 2009. No fees will be charged for the usage but Keflavíkurflugvöllur ohf. is obliged to cover all costs of daily operating and maintenance expenses, to ensure that their condition is in accordance with standards put forth by The International Civil Aviation Organization. The Icelandic Defence Agency on behalf of NATO, has the right to use theses facilities. The agreement for usage is amortizied on a straight-line bases over the useful life of the agreements.

10. The Consolidation

The Consolidated Financial Statements of Isavia ohf. consists of the parent company and the following subsidiary:

	Ownership%	Nominal amount	Principal activity
Shares in subsidiaries			
Fríhöfnin ehf., Keflavik Airport	100,00%	50.000.000	Retail and commerce
Tern Systems hf., Kópavogi	77,00%	38.500.000	Software and consulting

11. Bonds and other long term assets

Bonds

	31.12.2011	31.12.2010
Opening balance at the beginning of the year	208.414.934	71.969.333
Installments during the year	(105.328.451)	(16.987.114)
Additions	30.000.000	3.012.000
Additions through merger	0	95.277.623
Price indexation changes	8.392.532	143.092
Book value at year end	141.479.015	153.414.934
Current maturities	(18.900.266)	(21.169.943)
	122.578.749	132.244.991

11. Bonds and other long term assets (continued)

Long term receivable

	31.12.2011	31.12.2010
Opening balance at the beginning of the year	118.961.028	143.379.564
Additions	23.111.672	33.506.016
Charge for the year	(68.630.728)	(57.924.552)
Book value at year end	73.441.972	118.961.028
Current maturities	(49.533.521)	(68.464.666)
	23.908.451	50.496.362
Bonds and other long term assets at year end	146.487.201	182.741.353

12. Inventories

	31.12.2011	31.12.2010
Supply inventory	0	13.008.336
Goods for resale	390.082.718	358.911.943
Goods in transit	22.185.932	5.772.387
Allowance for old and obsolete inventory	(12.856.027)	(7.772.443)
	399.412.623	369.920.223
Insurance value of inventories	563.115.526	521.101.044

No inventories have been pledged at year end 2011.

13. Other financial assets

Accounts receivables

	31.12.2011	31.12.2010
Domestic receivables	1.020.700.082	835.088.248
Receivables - Joint finance agreement	0	56.812.473
Foreign receivables	173.029.932	146.695.526
Income not invoiced	3.503.043	50.357.812
Allowances for doubtful accounts	(18.406.600)	(25.094.000)
	1.178.826.457	1.063.860.059

Changes in the allowance for doubtful accounts:

	31.12.2011	31.12.2010
At the beginning of the year	(25.094.000)	(24.631.146)
Allowance for doubtful accounts	(1.211.970)	(14.291.737)
Impairment loss recognised on receivables	7.899.370	13.828.883
At year end	(18.406.600)	(25.094.000)

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

13. Other financial assets (continued)

Other receivables

	31.12.2011	31.12.2010
Value added tax, receivables	139.482.037	108.255.836
Prepaid expenses	29.249.573	18.093.324
Capital income tax	34.299.654	21.882.881
Accrued interest, receivables	8.087.775	4.855.031
Prepaid lunch vouchers from employees	0	2.834.520
Overpaid taxes	0	24.110.670
Accrued income, receivables	47.903.256	48.084.556
Work in progress, special project due to grants	0	35.501.089
Other receivables	109.351.805	115.357.843
	368.374.100	378.975.750

Bank balances and cash

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

	31.12.2011	31.12.2010
Bank balances in ISK	2.130.778.169	1.267.982.556
Bank balances in foreign currencies	471.431.883	234.869.118
Cash in ISK	6.774.814	3.488.589
	2.608.984.866	1.506.340.263

14. Equity

Share capital is specified as follows:

	Shares	Ratio	Amount
Total share capital at year end	5.589.063.362	100,0%	5.589.063.362
	5.589.063.362	100,0%	5.589.063.362

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.

15. Long term borrowings

	Loans from credit institutions	
Consolidation	31.12.2011	31.12.2010
Debts in CHF	3.998.789.216	3.969.103.290
Debts in EUR	3.761.117.756	4.040.370.428
Debts in GBP	1.718.562.363	1.710.676.569
Debts in JPY	1.456.356.985	1.372.720.652
Debts in SEK	754.871.817	769.146.504
Debts in USD	5.280.644.220	5.391.711.098
Debts in ISK	2.106.489.766	2.435.499.403
	19.076.832.123	19.689.227.944
Amount due for settlement within 12 months	(1.352.889.507)	(1.347.097.440)
Non-current liabilities at year end	17.723.942.616	18.342.130.504

Installments of non-current liabilities are specified as follows:

	Loans from credit institutions	
	31.12.2011	31.12.2010
Current maturities	1.352.889.507	1.347.097.440
Installments in 2013	1.330.975.551	1.275.754.884
Installments in 2014	1.320.214.829	1.254.011.715
Installments in 2015	1.297.513.850	1.242.663.566
Installments in 2016	1.282.144.397	1.220.055.655
Installments later	12.493.093.990	13.349.644.684
	19.076.832.124	19.689.227.944

16. Obligations under finance leases

	Lease payments not due		Present value of minimum lease payments	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Amounts payable within one year	2.897.836	9.977.277	2.906.170	9.705.764
Amounts payable later	4.172.391	5.823.379	3.900.386	5.579.247
	7.070.227	15.800.656	6.806.556	15.285.011
Future finance charges	(263.671)	(515.645)		
Present value of lease obligation	6.806.556	15.285.011		

17. Retirement benefit obligation

Isavia ohf. and Fríhöfnin ehf. are responsible for the retirement benefit obligation arising in excess of total premium related to their employees each year. The Company is not responsible for total retirement benefit obligations for its employees that belong to the B part of The Pension Fund for State Employees but only the additional payments so the retirement benefit obligations for each employee will be met. In the year 2011 the total amount charge through profit or loss is ISK 390,6 million, including charges ISK 226,8 million ISK because of an agreement with Flugstoðir ohf. as described below.

When Flugstoðir ohf. was founded in the beginning of 2007, all the Icelandic Civil Aviation Administration employees who transferred to Flugstoðir were made reduntant and offered a new employment contract, Flugstoðir was merged into Isavia ohf. in the beginning of 2010. Those employees were guaranteed individual membership at the B-division of The Pension Fund for State Employees of which their salaries were used as a criteria after the take-over. Regardless of the take-over, the employees of Flugstoðir who had a special contract and were members of the Icelandic Air Traffic Controller Association were guaranteed a full pension even though their membership was part of the B-division of the Pension Fund. It was difficult to calculate and evaluate the liability before the fall of 2011, due to uncertain factors concerning legal rights and premiums. These calculations are currently available for 2007-2011 in the amount of ISK 226,8 million, which is recognized as an additional contribution to the retirement benefit obligation.

18. Deferred tax assets / (liability)

Defered tax assets (liabilities) 2011	Defered tax assets	Deferred tax liabilities
Opening balance at 1 January 2010	236.848.317	(32.875.072)
Tax liabilities of Flugfjarskipti ehf.	(20.086.988)	0
Calculated income tax for the year 2011	(134.474.429)	(21.164.694)
Income tax payable for the year 2012	0	15.520.453
Balance at 31.12.2011	82.286.900	(38.519.313)

Deferred tax balances consist of the following account balances 31.12.2011	Defered tax assets 31.12.2011	Deferred tax liabilities 31.12.2011
Property, plant and equipment	(1.025.539.258)	(32.302.212)
Current assets	85.326.575	0
Other items	28.497.454	(6.217.101)
Tax loss carried forward	994.002.129	0
	82.286.900	(38.519.313)

Defered tax assets (liabilities) 2010	Defered tax assets	Deferred tax liabilities
Opening balance at 1 January 2010	652.099.273	(13.889.631)
Addition due to the merger	(12.107.430)	0
Effect of change in tax rate	23.684.832	(3.287.507)
Calculated income tax for the year 2010	(446.915.479)	(15.697.934)
Tax payable in the year 2011 due to a subsidiary	20.087.121	0
Deferred tax at year end 2010	236.848.317	(32.875.072)

18. Deferred tax assets / (liability) (continued)

Deferred tax balances consist of the following account balances 31.12.2010	Defered tax assets 31.12.2010	Deferred tax liabilities 31.12.2010
Property, plant and equipment	(1.102.971.200)	(34.264.847)
Current assets	96.279.071	0
Other items	(137.125.095)	1.389.775
Tax loss carried forward	1.380.665.541	0
	236.848.317	(32.875.072)

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

Available for the years 2012 through 2016	46.968.888
Available to the year 2017	167.009.959
Available to the year 2018	5.108.976.356
Available to the year 2019	23.596.470
Available later	11.112.360
	5.357.664.033

19. Other financial liabilities

Accounts payable

	31.12.2011	31.12.2010
Domestic accounts payable	603.531.516	440.142.893
Accounts payable - Joint finance agreement	134.721.163	0
Foreign accounts payable	120.840.679	90.730.335
	859.093.358	530.873.228

Current maturities of long-term liabilities

	31.12.2011	31.12.2010
Loans from credit institutions	1.352.889.507	1.347.097.440
Obligation under finance leases	2.906.170	9.705.764
	1.355.795.677	1.356.803.204

Other current liabilities

	31.12.2011	31.12.2010
Value added tax, payable	20.729.901	52.980.121
Deferred revenue	2.961.574	4.052.009
Tax payable	0	4.276.883
Work in progress	0	5.500.000
Accrued pension contribution to The Pension Fund for State Employees	376.785.451	73.020.385
Salaries and related expenses payable	250.125.345	236.400.412
Accrued holiday commitment	581.351.258	515.161.311
Accrued interest, payable	165.934.081	169.290.916
Other liabilities	77.150.452	27.863.850
	1.475.038.062	1.088.545.887

20. Financial risk

Financial instruments

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

Financial assets	31.12.2011	31.12.2010
Bank balance and cash	2.608.984.866	1.506.340.263
Loans and receivables	1.762.121.545	1.715.211.771

Financial liabilities	31.12.2011	31.12.2010
Other financial liabilities	21.564.812.667	21.733.990.517

20. Financial risk (continued)

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.

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. Interest rate risk is only applicable to interest bearing assets since the liabilites of the Company only bear fixed 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:

	31.12.2011		31.12.2010	
	50 bps.	100 bps.	50 bps.	100 bps.
Effects on profit or loss and other equity	(53.919.637)	(107.839.275)	(66.667.779)	(133.335.558)

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		Volatility
Currency	2011	2010	2011	2010	2011
EUR	158,84	153,80	161,42	161,89	4,0%
GBP	189,43	178,47	186,00	188,55	6,9%
JPY	1,585	1,410	1,458	1,393	12,4%
DKK	21,37	20,64	21,67	21,74	3,9%
NOK	20,40	19,67	20,70	20,21	7,6%
SEK	17,79	17,16	17,88	16,96	8,3%
USD	122,71	115,05	116,07	122,04	9,3%
CHF	130,66	122,91	131,20	117,24	14,8%
CAD	120,21	115,26	117,31	118,46	9,0%

20. Financial risk (continued)

Foreign currency risk 31.12.2011

	Assets	Liabilities	Net balance
EUR	110.062.589	3.828.881.657	(3.718.819.068)
GBP	73.871.938	1.724.052.772	(1.650.180.834)
JPY	32.200.706	1.456.356.985	(1.424.156.279)
CHF	45.216.724	4.002.632.054	(3.957.415.330)
DKK	110.149.951	3.950.686	106.199.265
NOK	14.317.783	877.869	13.439.914
SEK	17.881.975	761.531.094	(743.649.119)
USD	266.125.175	5.312.161.037	(5.046.035.862)
CAD	1.538.594	0	1.538.594

Foreign currency risk 31.12.2010

	Assets	Liabilities	Net balance
EUR	80.948.592	4.087.042.466	(4.006.093.874)
GBP	38.617.929	1.719.730.847	(1.681.112.918)
JPY	769.644	1.372.720.652	(1.371.951.008)
CHF	2.152.503	3.980.946.100	(3.978.793.597)
DKK	64.044.439	3.653.528	60.390.911
NOK	4.173.559	6.962.732	(2.789.173)
SEK	2.142.204	769.146.504	(767.004.300)
USD	205.338.701	5.404.348.157	(5.199.009.456)
CAD	156.841	0	156.841

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. A positive amounts below indicates an increase in profit and other equity. A 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	**31.12.2011**		**31.12.2010**	
	5%	10%	5%	10%
EUR	(148.752.763)	(297.505.525)	(164.249.849)	(328.499.698)
GBP	(66.007.233)	(132.014.467)	(68.925.630)	(137.851.259)
JPY	(56.966.251)	(113.932.502)	(56.249.991)	(112.499.983)
CHF	(158.296.613)	(316.593.226)	(163.130.537)	(326.261.075)
DKK	4.247.971	8.495.941	2.476.027	4.952.055
NOK	537.597	1.075.193	(114.356)	(228.712)
SED	(29.745.965)	(59.491.930)	(31.447.176)	(62.894.353)
USD	(201.841.434)	(403.682.869)	(213.159.388)	(426.318.775)
CAD	61.544	123.088	6.430	12.861

20. Financial risk (continued)

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 31.12.2011	Carrying amount 31.12.2010
Bonds and other long term assets	214.920.988	327.375.962
Accounts receivables	1.178.826.457	1.063.860.059
Other receivables	339.124.529	360.882.426
Bank balances and cash	2.608.984.866	1.506.340.263
	4.341.856.840	3.258.458.710

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

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 31.12.2011				
Non-interest bearing	2.481.173.988	0	0	2.481.173.988
Floating interest rates	1.269.059.738	4.917.926.577	11.412.196.972	17.599.183.287
Fixed interest rates	86.735.939	316.822.436	1.080.897.019	1.484.455.394
	3.836.969.665	5.234.749.013	12.493.093.991	21.564.812.669
Assets 31.12.2011				
Non-interest bearing	1.606.719.487	59.605.947	51.221.858	1.717.547.292
Floating interest rates	2.617.899.730	35.659.391	0	2.653.559.121
Fixed interest rates	0	0	0	0
	4.224.619.217	95.265.338	51.221.858	4.371.106.413
Net balance 31.12.2011	387.649.552	(5.139.483.675)	(12.441.872.133)	(17.193.706.256)

	Payable within 1 year	Payable between 1 - 4 years	Payable after 4 years	Total
Liabilities 31.12.2010				
Non-interest bearing	2.029.477.562	0	0	2.029.477.562
Floating interest rates	1.146.784.749	427.498.858	12.072.877.081	13.647.160.688
Fixed interest rates	225.688.025	4.570.566.209	1.261.098.034	6.057.352.268
	3.401.950.336	4.998.065.067	13.333.975.115	21.733.990.518
Assets 31.12.2010				
Non-interest bearing	1.433.223.657	35.789.488	52.871.758	1.521.884.903
Floating interest rates	1.516.245.667	39.621.616	3.962.130	1.559.829.413
Fixed interest rates	2.783.366	0	0	2.783.366
	2.952.252.690	75.411.104	56.833.888	3.084.497.682
Net balance 31.12.2010	(449.697.646)	(4.922.653.963)	(13.277.141.227)	(18.649.492.836)

21. Other issues

Revenues of International flight service

On the basis of the service agreement with the Ministry of Interior, the Company offers an air navigation services within the Icelandic airspace and a part of the flight territory for Greenland and the Faroe Island in accordance with the Icelandic Treasury´s commitments in international agreements. For this obligation there is a so called Joint Financing Agreement which was signed in the year 1956 between 13 member countries of ICAO but these members has since reached 24 in total. The users of the service pays for the service in full.

22. Other obligations

Operating licence

Isavia ohf. has received a licence from the Iceland Civil Aviation Administration for the operations of air navigation services under regulation no. 631/2008 and a licence for the operation of airports according to regulation no. 464/2007. The licences are granted for a variable periods. Licenses for the opertions of air navigation services and Keflavik Airport are valid until 2016. The licence for Akureyrarflugvöllur are valid until 2013 and the licence for Egilstaðarflugvöllur and Reykjavíkurflugvöllur are valid until 2012. Registered landing area or other airports including airports for scheduled flights, are valid until 2017.

Under its operating licence the Company shall be obliged to respect and meet all obligations within the range of responsibilities and the operational area of the airport, the runways and terminals itself at Keflavikurflugvöllur 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 in accordance with the U.S - Iceland defence agreement, the use of the airports facilities. The Defense Department of the Ministry for Foreign Affairs shall be responsible for all liaising between the Company and the American Military Authorities, whether directly or

Service aggreement for construction

The service aggreement between the Ministry of the Interior and the company applies to maintainance and construction of airports. The company works with the Ministry of the Interior and puts forth a proposals for maintance and construction which the company belives is neccessary to perform in accordance to transportation policy. The construction projects which are classified within this plan and are therefore agreed in the transportation policy. Payments are received according to a payment plan which is connected to the expected progress of the construction projects. Included in this part of the service aggreement is a management fee due to the projects. For the year 2010 this amount was ISK 32 million. In the same period the amount for construction projects were in total of ISK 387,8 million.

Service aggreements for operations

On the basis of the service aggreement with he Ministry of the Interior the Company provides navigation services in the local airspace. Operations, maintance and construction of airports and landing strips, as well as the operation of the Air Traffic School and publishes the AIP handbook.

The company is obliged to have in effect all legally binding insurance including liability insurance for air traffic control, airports and aircraft testing. The liability coverage of these insurances at year-end 2010 amounted to USD 500.000.000 for airports, USD 1.000.000.000 for air traffic control and USD 500.000.000 for flight testing.

All of the Company's insurance is exempt from liability because of acts of terrorism. The Company has taken out insurance against terrorism covering damage amounting to as much as USD 15.000.000.

The company has purchased a idemnity insurance for Board of directors and managment which covers a loss up to USD 250.000.000.

Obligation due to employees

The Company has all employee insuranced 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.

23. 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 public 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 CEO´s is explained in note no. 5. Sales of goods and service to key management personnel and related parties where immaterial.

24. Approval of financial statements

The financial statements were approved by the Board of directors and authorised for issue on 29 March 2012.

25. Consolidated ratios

From Statement of Comprehensive Income:	2011	2010
Profitability		
Earnings before interests, taxes, depreciation and amortisation (EBITDA)	3.652.709.854	3.044.627.499
a) Contribution margin on operation	22,12%	21,54%
b) Profit margin on operating revenue	3,66%	15,03%
c) Earning per share (EPS)	10,81%	38,01%
d) Return on equity	5,69%	23,06%

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

From Balance sheet:	31.12.2011	31.12.2010
Activity ratios		
e) Investment in inventories	0,02	0,03
f) Rate of return on assets	0,51	0,44
g) Inventory turnover	8,71	7,24
h) Receivables turnover	14,72	14,37

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

Liquidity ratios		
i) Quick or acid-test ratio	1,10	0,90
j) Current ratio	1,21	1,01

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

Coverage ratios		
k) Equity ratio	0,34	0,32
l) Internal value of shares	1,95	1,84

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

From Cash flow:	2011	2010
m) Net cash debt coverage	0,16	0,07
n) Quality of sales	5,87	0,75
o) Quality of net profit	1,74	1,23

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

25. Consolidated ratios (continued)

Operating expenses as percentage of revenues	2011	2010
Cost of goods sold/income from retail division	20,28%	47,43%
Salaries and related expenses/operating revenues	41,39%	43,82%
Administrative expenses/operating revenues	3,54%	4,37%
Other operating expenses/operating revenues	12,66%	12,57%
Depreciation and amortization/operating revenue	8,18%	9,35%
Operating expenses/operating revenues	86,06%	87,81%

26. Statement of Cash Flows

Consolidation	2011	2010
Net profit	604.053.446	2.125.176.944
Depreciation and amortization	1.350.681.831	1.321.226.252
Other non-cash items	1.091.382.418	(1.271.227.795)
Other changes	215.517.086	387.411.680
Working capital provided by operating activities	3.261.634.781	2.562.587.080
Changes in:		
Operating assets	(207.573.164)	(423.706.020)
Operating liabilities	490.978.238	(548.792.723)
Net cash provided by operating activities	3.545.039.855	1.590.088.338

Values of Isavia

Safety

We minimise risk by employing disciplined operating procedures, relentless pursuit of knowledge and systematic supervision and effect safety for our customers, personnel and the public.

Co-operation

We co-operate as one toward the goal of success and excellence in service. We respect each other's work and en-courage initiative toward reformation.

Service

We establish clear service benchmarks and greet our customers with positive attitude and respect. We exercise prudence and seek ways to maximise success.

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